

**USAID MONTENEGRO PRIVATE SECTOR DEVELOPMENT AND COMPETITIVENESS PROJECT  
Annual Project Summary and Report—July 2004 Through June 2005**

Date: July 31, 2005

To: Mr. Savo Djurovic, USAID/Montenegro  
Dr. Michael Boyd, USAID/Montenegro

From: Mr. Fred Harris, Chief of Party, Booz Allen Hamilton  
Mr. Donald Niss, Project Manager, Booz Allen Hamilton

Re: Annual Project Summary and Report—July 2004 Through June 2005

CC: Mr. David Cowles, Program Manager, Booz Allen Hamilton

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**1. Project Identification**

Title: USAID Montenegro Private Sector Development and Competitiveness Project  
Contractor: Booz Allen Hamilton Inc. With IESC, and Mendez England & Associates  
Contract Number: PCE-I-00-98-00013-00  
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**2. Project Performance Dates**

Period of Performance: June 29, 2004—June 28, 2007  
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Anticipated Completion Date: June 28, 2007

**3. Key Advisors:**

Fred Harris, Milic Curic, Andrija Draskovic, Boris Spalevic, Alan Mattern, Terry Mohoruk, Hilton Settle, Marc Yanofsky, David Cowles, Donald Niss.

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## I. EXECUTIVE SUMMARY

The Montenegro Private Sector Development and Competitiveness Project (MCP) made significant progress in its first year. The project team is in place with a strong Montenegrin staff and supported by a complement of exceptionally skilled and knowledgeable short term technical advisors. In a relatively short period of time, this staff has been challenged to accept significant responsibility and has stepped up to this challenge as a team. They are the foundation of MCP.

We have developed excellent working relationships with our private sector, business association and government counterparts. The private sector focus of our program is based on the following principles:

- **Private Sector Centered.** Given the mandate of the project as a whole, we have chosen entities that are privately owned and operated. Our activities are focused on improving the firm's bottom line.
- **Motivated Ownership/Leadership.** We seek firms in which the owner and senior management are interested in improving the quality and operating results of the business and are open to new ideas and approaches. Other organizations with whom we work must demonstrate commitment to new approaches, transparency and action over talk.
- **Small Scale.** We have placed a priority on assisting smaller firms because (1) these firms have particular difficulty in competing effectively and (2) our assistance can often have more immediate, tangible impact on smaller entities. This does not exclude working with larger firms, but a priority of where we will apply our efforts.
- **Demonstration Effect.** We also seek assistance opportunities where the results will be visible to other firms in the industry, encouraging broader involvement and reinforcing the tangible benefits of adopting new and collaborative approaches.
- **Cooperation.** Our activities are focused on building collaborative efforts through appropriate and sustainable incentives. Accessing new markets, increased efficiency and improvements in the business environment are incentives that can bring about cooperation and collaborative efforts among firms, as well as with business association and government.

Year 1 has set the foundation for future success. A number of the blocks are in place to realize results in Years 2 and 3.

## II. SECTOR (CLUSTER) ACTIVITIES

### AGRICULTURE

## **Agribusiness—Overview**

### **Goal 1: Export Development and Promotion**

1. Implement geographic market demand evaluation and analysis surveys of domestic and foreign (Balkan) markets
2. Define key sector opportunities and, where appropriate, implement project activities for impact, concentrating on potential niche markets
3. Identify various international certification requirements and address methodologies for implementing those standards at individual firm level
4. Identify and establish relationships with private enterprises to begin demand-driven strategic planning efforts for developing marketing potential

### **Goal 2: Collaborative Sector Initiatives and Clusters**

1. Develop sector strategy overviews
2. Work with a wide variety of agricultural and agribusiness associations to encourage establishment of an independent, overarching agro-industry association
3. Work with selected GoM ministries, associations, and international donor agencies and projects to coordinate and assist in correcting or simplifying official policies and procedures that restrict private market development
4. Collaborate to engage and work with implementers of the Slovenian 5-Year Plan for Agricultural Development and create mechanism for private sector input
5. Coordinate cross-sectoral areas (especially Agriculture–Tourism) to maximize Montenegrin development opportunities
6. In meeting with newly identified private firms, assess and address environmental considerations and potential interventions
7. Work with selected GoM ministries, associations, and international donor agencies and projects to redefine the Made-in-Montenegro branding effort

### **Goal 3: Investment Promotion and Finance**

1. Identify potential sources of private financial resources, including possible long-term financing and outside investor potential
2. Conduct feasibility study concerning use of Development Credit Authority to support agriculture and agribusiness

## **Progress Against Prior Year Work Plan**

### **Goal 1: Export Development and Promotion**

1. *Implement geographic market demand evaluation and analysis surveys of domestic and foreign (Balkan) markets*

**Balkan Market Demand Survey.** The project team's Balkan market demand survey, conducted in conjunction with Directorate for Small and Medium Enterprise Development (SMEDD), was completed in April 2005. The survey, covering Bosnia and Herzegovina, Serbia, Macedonia, Albania, and Kosovo, identified many niche market opportunities for Montenegro products, including—

- **Bosnia and Herzegovina.** Meat products (poultry, beef, turkey); smoked pork products (Njegushi specialties); fish (salt and fresh water); fruits (mandarin, kiwi, figs, pomegranate, and others); vegetables (early harvest—climatic advantage); olives, olive oil, and olive pâté; fruit juices (pomegranate and kiwi) and various syrups; ice cream; wine, beer, and brandy; various cheeses and kajmak; herbs and herbal teas; confectionery products; and sea salt.
- **Serbia.** Meat products (poultry, beef, turkey); smoked pork products (Njegushi specialties); fish (salt and fresh water); fruits (mandarin, kiwi, figs, pomegranate, and others); vegetables (early harvest—climatic advantage); olives, olive oil, and olive pâté; fruit juices (pomegranate and kiwi) and various syrups; ice cream; wine, beer, and brandy; various cheeses kajmak; forest fruits (blueberries, blackberries, and raspberries), herbs; confectionery products; and sea salt.
- **Macedonia.** Yoghurt (UHT); cheese (traditional Montenegro cheese); meat and poultry products (salamis); smoked meat products (Njegushi specialties, smoked ham); fruit juices (pomegranate and kiwi); olives, olive oil, and olive pâté; ice cream; dried fruits (blueberries, blackberries, and raspberries); herbs (including organic herbs) and essential oils; fresh fish and seafood; wine and beer; potato seeds; fruit (mandarin); and sea salt.
- **Albania.** Meat products (poultry, beef, turkey); dairy products (ice cream and various cheeses (mozzarella, goat and sheep cheese, and kajmak); smoked pork products (Njegushi specialties); potatoes (seeds and edible potatoes); fresh fish and seafood; vegetables (fresh and processed); olives, olive oil, and olive pâté; fruit juices and various syrups; ice cream; wine, beer, and brandy; herbs (processed and unprocessed); and confectionery products.
- **Kosovo.** Meat products; dairy products; fresh fruits and vegetables; cookies and confectionery products.

On April 19, a seminar was held, in conjunction with SMEDD, to alert Montenegrin food and beverage companies to these market opportunities. This seminar was well attended by our contacts and included 47 company participants.

One of the trade leads developed from this survey was the Euromax retail chain in Albania. This retail group is interested in a wide variety of food products from Montenegro. We followed up on this lead by gathering product photos and price lists from 17 companies. The retail group is reviewing this information and plans to visit Montenegro soon to meet with interested firms in order to initiate more detailed business-to-business discussions.

The project team is also following up with the other trade leads developed from this initiative.

The team worked closely with SMEDD on the survey in order to educate two young professionals, Zarija Pejovic and Vladimir Dulovic, on the process of conducting market surveys and thereby upgrade the capabilities of this government organization. Pejovic and Dulovic were chosen by SMEDD as young professionals who were particularly receptive to new ideas and methodologies in market development. SMEDD, as an independent governmental directorate, directly supports enterprises within the Agriculture sector and other sectors. The Directorate has also taken the lead in branding Montenegrin products through its Made-in-Montenegro effort. This project and SMEDD are ideal partners in the effort to expand markets by identifying demand, establish and sustain safety and quality standards, and promote products. Our partnership on the Demand Survey was the first step in what has become a highly effort to combine the best of private enterprise development and government support of the sector.

*2. Define key sector opportunities (and where appropriate implement project activities) for impact, concentrating on potential niche markets*

**Trade Shows.** The project team participated in three international trade shows during the past year:

- **Gulfood 2005.** In March, project staff Fred Harris and Boris Spalevic attended Gulfood 2005 in Dubai to develop trade ties for MCP-assisted firms. Project staff worked with Pirella to develop a relationship to sell promagranate and other juice products to Trans Emirates a commercial import company in the United Arab Emirates (U.A.E.). MCP facilitated negotiations for the initial export of one 40-foot container of juice and subsequent shipment of five containers of juice between the two companies. Pirella wisely declined to finalize the initial transaction because Trans Emirates insisted on a cash payment 2 weeks after arrival of the first container, instead of the standard letter of credit, which had been agreed on by the two companies. Although Pirella declined the cash payment offer, it left the door open to future transactions if Trans Emirates would agree to use of a letter of credit.

Although this initial transaction was not consummated, both Pirella and the project staff gained valuable insight into and experience in accessing international export markets. Benefits included—

- Increasing understanding of juice markets in the Middle East and customer expectations
- Improving Pirella's labels and their accurate translation into English
- Identifying options and limitations of the export credit market in Montenegro
- Identifying and establishing a relationship with SGS, an international food quality control laboratory for certification of juice and other food products
- Providing extensive information on freight handlers for shipments by sea, including information on the handlers that offered the best pricing and quality with the shortest delivery terms
- Identifying international accreditation contacts that could help Montenegro educate its companies on HACCP, International Organisation for Standardisation (ISO), Halal, and Organic certifications
- Familiarizing Pirella with export credit facilities and practices.

- **Fancy Food Show/All Organic Trade Show, Chicago.** Hilton Settle, Senior Agribusiness Advisor, attended these combined shows in Chicago May 1–3, 2005. Settle made contact with the AB Company of Wisconsin, the US importer for CG Coop, which also handles the export of Rada mineral water to the United States. AB Company specializes in the import of food and drink from numerous regional companies and expressed an interest in meeting with more Montenegrin companies during an upcoming visit to the Novi Sad trade fair in Belgrade. This interest was transmitted to the project team so that it could arrange a meeting between AB Company and Montenegrin companies participating in this event. New contacts were also established in the herb industry, and the team is now following up with these US importers.
- **Agriculture Trade Show, Novi Sad.** Fred Harris and Boris Spalevic attended this show with representatives of six local firms. The project shared travel costs with the Montenegro companies Martex, Italproduct, Lars, Hertog Chickens, Sjekloca, and Srna Dairy. The companies funded accommodation costs themselves. The purpose of attending was to identify the best and worst practices of exhibitors at the show and to highlight ideas and presentations that were particularly effective in market development. The companies also established contacts with numerous equipment manufacturers for upgrading packaging and labeling capabilities.

**Herb Sector Initiatives.** The herb and medicinal plant sector has substantial potential for development of new export business, but this potential is hampered by the dramatic deterioration of the industry over the past 10 years. Collection, processing, packaging, and export were previously handled by two state-run conglomerates. Gatherers collected these herbs and medicinal plants and delivered them to these state enterprises. Although sage was the industry's main product, up to 125 herbal products were produced and exported.

Several entrepreneurs have attempted to start new businesses in this sector but have been hindered by problems in obtaining bank financing for new equipment or seasonal operating expenses (buying herbs during the main production months), as well as problems in obtaining payment from buyers.

To provide assistance to the Herb sector, the MCP has undertaken several initiatives:

**Industry Workshop.** The project organized a working meeting of the Medicinal Herbs Association, along with representatives from 14 companies working in the medicinal herb processing sector. The meeting covered overall conditions within the sector, as well as company-specific information gathered from questionnaires completed by the attendees. Critical administrative barriers for the industry, as well as other major issues hindering the growth of the industry, were identified, assessed, and prioritized. Participants also discussed market opportunities for Montenegrin herbal products for export to other countries in the region, the European Union (EU), and the United States.

The project has continued to work closely with the Medicinal Herbs Association and its members to strengthen cooperation between producers and possible foreign partners and buyers. We obtained a several international standards manuals from the American Spice Trade Association (ASTA), a worldwide leader in the international spice and herb trade, and made these available to the Montenegrin industry to help it meet quality requirements.

**New Herb Brochure.** In addition, the project team is working with the Medicinal Herbs Association to bring in an industry expert to help develop a new brochure to inform gatherers about the best methods for collecting, drying, and storing their herbs and medicinal plants. This expert will be arriving in mid-July.

**Export Sale.** The project has generated several herb subsector trade leads, which we are still pursuing. One lead resulted in the export of a truckload of sage (15 MT), valued at €15,000 (ca. \$18,500), to Europe.

**Cluster Cooperation.** With the project team's encouragement, five producers are now working together to market their essential oil and herbal products. This cooperation was encouraged because the productive capabilities of each producer are limited, and cooperation improved their capabilities to fulfill potential export orders.

**Industry Investment Initiative.** Finally, the project organized a meeting between one of the top companies in Montenegro, Roksped, and representatives of the herb sector to interest Roksped in investing in this sector. Roksped started its successful business focusing on petroleum transportation and sales of related products but has since branched out into Volkswagen new car sales and service in Montenegro and into the agricultural sector (wine production in Serbia and meat in Albania). Discussions between Roksped and herb sector representatives grew out of earlier discussions related to regional transportation issues. The follow-up effort developed from a discussion of the lack of working capital for the purchase of herbs. This lack of capital prevented Montenegrin herb processors from developing this business to capacity. Roksped previously expressed interest in the potential of the herb sector and can contribute in several needed areas (working capital, forwarding services, transportation facilities, export experience, warehouses, bank guarantees for international business operation.). MCP is facilitating discussions centered on developing export business for the numerous herbal and medicinal plant varieties available here.

**Project Support for Inspe Herbal Tea Company.** The project team undertook several initiatives to assist the Inspe Herbal Tea Company in Bar. This company is the only company in Montenegro that has taken the initiative to become internationally certified to officially market its 28 products as organic. Certification to meet the requirements of the EU has already been obtained, and the company is also preparing to become certified for the US and Japanese markets.

The project also helped Inspe develop new export pricing for the upcoming season by providing it with indicative price levels from the US and Canadian markets. In addition, we provided Inpspe with English translations of this new price list.

Other activities under this subtask included—

**Establishing Contacts With AB Company,** a US importer of specialty food products from this region. Samples from the companies Pirella, Dona, Cevo, Frukta, Eco Meduza, and Lars were collected and shipped together with a container load of products from Cnagoracoop (CC Coop) to arrive in New York City in time for the Summer Fancy Food Show, the oldest and largest of the three Fancy Food Shows, which will occur July 10–12, 2005. This will be an excellent opportunity to test market the products from the six Montenegrin companies and to create opportunities to export to the US market for the first time. The project team will follow up with



the AB Company to learn what transpired at the show for the six companies and to assess plans for future initiatives.

**Possible Cooperation Between Cevo Cheese Company and Srna Dairy Plant.** The project team brought these dairy companies together to discuss possible future cooperation in the making of Cevo cheese. As an example, when Srna Dairy has excess milk, this can be sent to Cevo to expand its cheese production. The two companies have expressed interest in cooperation and are continuing their discussions concerning this. The project has been actively involved in developing closer cooperation between the companies in the dairy sector.

**New Supplier of Pomegranate and Other Fruit Concentrates/Purees.** Sector Advisor Hilton Settle helped develop new contacts with an Egyptian supplier of pomegranate and other fruit juice concentrates and purees needed to expand production of these products. This effort was initiated at the request of Pirella Juice Processing to expand its production and marketing season once domestic supplies were depleted. Price lists and availability information for four fruit juice concentrates and purees were obtained, and an initial sample shipment of two fruit juice concentrates was sent to Pirella. Pirella is now analyzing these samples. Other shipments will be sent later in the summer when supplies become available in Egypt.

3. *Identify various international certification requirements and address methodologies for implementing those standards at individual firm level*

**International Certification Awareness Workshop.** The project funded and sponsored a workshop on international certifications presented by the world leader in this business, SGS (from SGS's Belgrade office). The effort included cooperation with CEED. This event was held to raise the awareness of the various international certifications that companies are likely to need sometime in the future. Topics covered included various ISO certifications (9001, 14000, 22000), HACCP, Organic, EurepGap, Halal, etc. Just over 60 companies and organizations participated.

Only one food and beverage company in Montenegro has received HACCP certification (Plantaze Wine Company). As a result of the seminar, six additional companies (Eco Meduza, Mesopromet, Olioprom, Goranovic, Sun Donzze, and Pirella) are pursuing this certification. Obtaining HACCP certification is considered extremely important for the Montenegrin food and beverage sector because these companies will need this certification to enter the European market, and to enter the US market for certain products, as well as to meet increasing international competition in their own and regional markets. As of January 2006, HACCP certification of *all* food processors will be required for export into the European Union. Increasingly Euro Gap certification is being required throughout Europe, just as US Department of Agriculture (USDA) guidelines must be adhered to for shipment into the United States. In all cases, HACCP sets the standard. As of 2006, this certification will not merely be an advantage; it will be a necessity.

4. *Identify and establish relationships with private enterprises to begin demand-driven strategic planning efforts for developing marketing potential*

**Packaging and Labeling Advice to Client Companies.** The project team's labeling and packaging advisor, Jeffrey Spear, provided labeling and packaging advice to our client companies, as well as assessing the capabilities of local design houses to help Montenegrin food and beverage companies upgrade their product labeling and packaging to the level of international competition. During this visit, we began discussions with 19 manufacturers on improving their product labels and packaging and met with 6 local design firms to assess their design capabilities.

A seminar was held at the end of June to further educate Montenegrin food and beverage firms and local design companies about the importance of using innovative design techniques, targeted at buyers and consumers, to expand sales and meet international competition. This seminar was very successful and well attended, with 25 participants from 20 companies. At the seminar, the project team also distributed translated copies of the US Food and Drug Administration (FDA) Food Labeling Guidelines.

The project team has proposed continuing this effort with selected client companies, using the expertise of our Labeling and Packaging Advisor, Jeffrey Spear, to work with local design companies and our clients to produce more competitive product labels to help increase sales.

**Increasing English/Bilingual Language Skills in Sales Staff.** In response to our urging sector-wide, Pirella has hired two young English-speaking staff members to concentrate on market development for the company. The project team is investigating ways of addressing the English/bilingual speaker gap in the sales forces of Montenegrin businesses.

**CG Coop Addition of Two New US Distributors.** MCP has facilitated discussions with our client firms and CG Coop. CG Coop is licensed to export to the United States and has expressed interest in collaborating with MCP client firms. Two new US distributors were selected by CG Coop's General Manager on another trip to the US. Selection of these additional distributors, Adria Imports Inc. in New York and Associated Wholesale Grocers, Inc., in Kansas City, Missouri, should expand distribution of products in the US market. Adria Imports handles products from Croatia, Slovenia, Bulgaria, Hungary, and Germany. Associated Wholesale Grocers is the second largest retailer-owned grocery wholesaler in the United States, serving more than 1,200 stores in a 21-state distribution area, supplying customers from seven modern and efficient distribution centers, totaling more than 5 million square feet.

AB Company is the official distributor for CG Coop in the upper Midwestern United States. Through our meeting with both companies, we organized business-to-business meetings between AB and the six client companies in Podgorica on behalf of CG Coop. The effort was productive for all participants: for CG Coop and AB Company for their expansion of business opportunities in the US market, as well as for the six local firms. Actions such as these directly increase project opportunities to create local jobs and income, thereby raising the overall standard of living in Montenegro.

## **Goal 2: Collaborative Sector Initiatives and Clusters**

### *1. Develop sector strategy overviews*

Early in the project, we met with all relevant ministries, on-site international organizations, nongovernmental organizations (NGO) and related projects, such as Bearing Point, IRD, and CHF. We also evaluated all potential subsector associations and began a systematic effort to meet with as many private firms within the most promising subsectors as possible. The initial result of those meetings formed the basis for project team member Richard Hicks' Agriculture Sector Strategy Report. This report provided detailed descriptions of opportunities and limitations within the sector. On the basis of this report, we formulated an approach that has undergone continuous adjustment as more detail was obtained.

**Memorandums of Agreement and Baseline Data Collection.** As of June 30, the project team has 11 signed memorandums of agreement (MOA) with Montenegrin food and beverage companies. Six of these have also completed the requested baseline data information forms, and we are continuing to work with the other five companies to help them complete their forms. The MOAs outline MCP's and the client firm's expectations for cooperation. Included in the firm's agreement to provide project baseline data for monitoring and evaluation purposes are the following: numbers of employees, gender of employees, and sales and export data. The firm also agrees, by signing the document, to provide updated information twice annually as long as MCP and the respective firm work together. MCP has also received completed survey forms outlining detailed company information from 12 companies in the herbal subsector.

2. *Work with a wide variety of agricultural and agribusiness associations to encourage establishment of an independent, overarching agro-industry association*

MCP has worked directly with herb processors to establish an independent association. Little has resulted from the effort because each processor sees itself as producing a unique product. The project team has made every effort to work closely with Montenegro Business Association (MBA) and the Montenegrin Employers Union (MUE) to strengthen standards of quality and safety for the sector.

3. *Work with selected Government of Montenegro (GoM) ministries, associations, and international donor agencies and projects to coordinate and assist in correcting or simplifying official policies and procedures that restrict private market development*

MCP's Chief of Party (COP) served on a committee to assist the GoM with its Economic Reform Agenda (ERA). The top five problems in agriculture identified by this agenda were as follows:

1. Smaller farms and a lack of cooperation within the sector.
2. Poor infrastructure, including roads for transport, irrigation systems, and adequate electrical facilities for production and processing in outlying areas.
3. Lack of knowledge. Montenegro lacks professional specialized knowledge. Although this situation has improved recently, more investment is required in education on up-to-date production techniques and technology, management, and marketing.
4. Outdated equipment and lack of processing capacity, especially in the area of fruits and vegetables. This is the result of old plant varieties, small farm size, insufficient and inappropriate equipment, and delayed privatization of remaining state farm holdings. There is demand for Montenegrin production, but often the demand is for what *could*

*be produced competitively (citrus of all types, some nut crops, various applications of aquaculture, etc.) rather than for what has been/is produced, often at the urging of the GoM. Outside investment could be a tremendous incentive to change, but there also needs to be an educational process to Montenegrin companies on investment to increase understanding of the potential for growth provided by outside investment.*

5. High general transaction costs caused by inefficient state bureaucracy. It is necessary to reduce bureaucratic obstacles and to develop transparent procedures based on elimination of discretionary rights of state officers. This especially relates to licensing and issuance of licenses, and to quality control. In addition, it is necessary to change the laws that are the legacy of the previous period, that make it impossible to import certain seeds and varieties over an extended period of time.

**Project Success in Removing Unnecessary Government Certification.** Through discussions with the Medicinal Herb Association, the World Trade Organization (WTO), and the GoM, the project team was successful in removing an unnecessary bureaucratic procedure and form that had been required for each export shipment. The removal of this unnecessary requirement has helped facilitate exports and enabled companies to be more competitive internationally. This requirement had cost each company €350 (ca. \$432) for each truckload shipped.

4. *Collaborate to engage and work with implementers of the Slovenian 5-Year Plan for Agricultural Development and create mechanism for private sector input*

MCP provided the Slovenians with copies of our Agricultural Sector Strategy and has discussed the strategy's implications with the Slovenians, the Ministry of Agriculture, and the ERA. Frankly, little has changed since the drafting of the Strategy, and the Ministry of Agriculture is not closely following the Slovenian plan in practice.

5. *Coordinate cross-sectoral areas (especially Agriculture–Tourism) to maximize Montenegrin development opportunities*

**Tourism and Agriculture Links.** The project team provided nine of our companies—Pirella, Ital Product, Lars, Inspe, Hertog Chickens, Frukt Milk, Eco Meduza, Olioprom, and Sjekloca—with addresses and contact information for Montenegrin hotels to help them expand their distribution in this sector. This has already led to new sales and distribution for these companies in the hotel sector.

6. *In meeting with newly identified private firms, assess and address environmental considerations and potential interventions*

Discussions have been largely limited to meeting with EU representatives and UNDP. In these meetings, all concerned agreed on the severity of the situation, but no one has the mandate or funds to proceed beyond that point.

7. *Work with selected GoM ministries, associations, and international donor agencies and projects to redefine the Made-in-Montenegro branding effort*

In recognition of the facts that there is no established standard for the Made-in-Montenegro branding effort, that a blind eye has been turned to health and safety standards for locally processed products, and that embracing HACCP certification has become a necessity, the project team has involved GoM ministries and associations, as well as international donors, in a cooperative effort to establish a systematic approach for establishing official Montenegrin standards for food quality and safety. These new standards will mirror international standards. This effort has gone as far as to include an acknowledgment of Halal certification. The premise underlying this effort is that even Montenegrins often view local products as inferior to imports, if not (in extreme cases) as actually dangerous. Adopting and implementing standards, will increase demand for local products both domestically and internationally, creating potential for more jobs, greater income production capacity, and a better quality of life.

### **Goal 3: Investment Promotion and Finance**

#### *1. Identify potential sources of private financial resources, including possible long-term financing and outside investor potential*

In April, the project team helped Inspe obtain a 3-year loan of €20,000 from the Opportunity Bank. Inspe will use these funds to build a second factory for production of organic herbal teas, which will enable the firm to greatly increase its production.

In addition, the project is obtaining detailed information from Inspe to support its loan application for the purchase a new, large-capacity dryer for its second factory. This investment in a larger dryer would increase Inspe's production by 30 to 40 percent and would allow the company to introduce two new products. Inspe already has preliminary contracts for 30 tons of new products for the upcoming season and estimates it will be able to increase revenues by 50 percent this year with the purchase of the new machinery. This new equipment will also enable the company to make supplies available for export for the first time. Inspe has already received the required three written offers for the purchase of the dryer, all using the same specifications. It has decided on the lowest bid at €12,000 and has requested that the project support this purchase with a grant of €6,000 (ca. \$7,328).

Inspe anticipates that its second factory will be completed in early fall 2005. When this increased production comes online, Inspe will expand the number of gatherers from 18 to 28.

#### *2. Conduct feasibility study concerning use of Development Credit Authority to support agriculture and agribusiness*

Development Credit Authority (DCA) was discussed as a possible source of assistance for financial organizations making loans to agribusinesses. However, a USAID assessment of the situation in Montenegro indicated that DCA was not a likely source of funding at this point, and further discussions of DCA have been tabled.

### **Proposed Changes and Refinements to Activity for Future Year**

Over the past year, the project team has observed some difficulty in developing cooperation among various business associations in agriculture. Unless there is a truly pressing issue, such as the need to secure regulatory approval in the herb sector, there appears to be little inclination to

collaborate. As a result, the team will scale back efforts to develop an overarching agro-industry association and focus on working through key product-based agricultural associations.

For the time being, we have tabled efforts to seek assistance from DCA as an alternative for improving the amount, terms, and types of credit for MCP-assisted businesses. However, we will continue to work with Montenegrin firms and financial institutions to improve the enterprises' ability to access credit and the financial institutions' willingness to extend financing.

### **Problems and Obstacles Encountered**

In Montenegro, agriculture is an underdeveloped and highly fragmented sector. Raw materials produced in Montenegro are 10 to 50 percent more expensive than those of regional competitors, which poses a big problem. All inputs—electricity, water, fuel, mineral fertilizers, labor, planting materials, etc.—are more expensive than in the region as a whole, which raises the cost of the final product, making Montenegro less competitive than its regional neighbors.

In addition, the majority of agricultural raw materials are in short supply in Montenegro, and therefore Montenegro must import them. A value added tax (VAT) amounting to 17 percent is paid on imports regardless of the type of goods (for example, the same 17 percent VAT is paid on a luxury good and basic agricultural inputs such as fruit seedlings or livestock). This is not the case in the surrounding countries. (The VATs in Serbia and Macedonia vary from 5 percent to 18 percent depending on the type of goods.) The VAT makes the final product even more expensive.

Difficulties in exports occur because of a lack of international certification, which is becoming obligatory for exportation to most countries. An example of the effect of this deficiency relates to potential lamb exportation to the EU market. Montenegro has a surplus of lamb meat, but it does not have any slaughterhouse that meets EU standards. In addition, regional veterinary and phyto-sanitary regulations have not been harmonized, precluding trade with neighboring countries, even though there is demand for selected products. These difficulties threaten to become even more acute in January 2006, when HACCP certification will be required for export of most agricultural products to the European Union.

The regional Free Trade Agreement between Montenegro and its neighboring countries is not fully respected, and most of the countries, including Montenegro, have introduced additional tariffs, which hinder possibilities for increased trade. Officially, trade between countries in the region should be subject to only a 1 percent customs duty, but for the majority of agricultural products duties range between 10 percent and 30 percent.

Political problems are also hindering trade opportunities. For example, trade leads from Kosovo did not produce results because of pressures from Kosovo's Government not to conduct any business with Montenegrin companies.

### **Other Developments or Events That Could Affect Performance or Progress Toward Targets**

**Lack of Marketing Plans and Strategies.** Almost all of the companies associated with this project have no plan or strategy for marketing their products, which means that they have no

blueprint to help them get from where they are to where they want to be. The project has already prepared a statement of work (SOW) to find an expert to help our client companies in this regard, and we anticipate initiating this STTA in fall 2005.

**Lack of Web Presentations or Brochures.** When asked to prepare quotations for the international market, most Montenegrin companies were not ready to respond in a timely manner. Consequently, only 16 of 24 companies were able to provide the requested information by the time requested by our contact in Albania. Design firms are similarly ill equipped (in both knowledge and technology) to provide either printed or electronically generated presentations. Most high-quality printing of materials is outsourced to Serbia. This is also the case in the design of Web sites. MCP has identified the firms that are best able to provide high-quality work in this area. Our Packaging Advisor, Jeff Spears, worked with graphic design firms to upgrade their potential to provide high-quality brochures and labels. We are now recruiting similar STTAs to address electronic media output.

Most of the Montenegrin companies still do not have Web sites or brochures translated into English. Further, companies' brochures are badly in need of upgrades in terms of graphic design, layout, and printing, as well as overall marketing. The project has already prepared SOWs to find experts to help our client companies in this regard; we anticipate initiating this STTA in the fall.

**Export Pricing.** The project team has also found, in working with many of our client companies, that they are inexperienced in calculating Cost, Insurance and Freight(CIF) prices. CIF pricing is a common term for quoting prices for traded goods. We plan to continue working with these companies on a case-by-case basis to improve this capability.

**Language Barrier.** A very large percentage (95 percent estimated) of Montenegrin companies do not have key decision-making staff who are bilingual, which presents a serious impediment to their marketing themselves or responding to potential purchasers on every level, from market development negotiations to dealing with financial and shipping issues. In most cases, MCP staff has interfaced with potential foreign buyers. This problem is unlikely to be resolved anytime soon.

**Problems With Receivables.** Collection of receivables is a serious issue that could result in the closure of a number of companies because of the negative impact on cash flow and business operations. Anecdotal evidence suggests that only 5 to 10 percent of retailers pay for goods received on a regular basis (defined as net 90). This is not as much a problem for larger companies such as Arial, Coca-Cola, Next, Milka, Knjaz Miloš, Colgate, which are largely paid on time, but is a serious problem for smaller local firms. The problem is not limited just to non-payment by private wholesale or retail firms. The GoM is also guilty of this practice when ordering from local companies. Suppliers have been reluctant to stop supplying products to GoM buyers, and are even more reluctant to pursue legal alternatives to force payment, fearing repercussions in terms of harassment from inspectors.

This problem is even more pronounced in this sector given the short shelf life of the products. Faced with limited other sales channels, producers chose to continue sales to delinquent customers with the promise of future payment rather than lose the products to spoilage if they

stop sale. To illustrate the impact of this issue, we note that Srna Dairy's receivables exceed 80,000 €. If this amount increases, the company may not be able to pay farmers for their milk in the near future. The dairy is obliged to pay farmers for milk twice a month, whereas retailers may not pay for months. Similarly, Podgorica Dairy has been paying farmers for milk with vouchers because of its lack of cash flow. Farmers use those vouchers to pay for necessities, and they can do that only in certain stores. MCP is working with Bearing Point, MBA, and MUE to resolve this extremely complex and politically sensitive issue, although resolution does not seem likely in the near term.

**International Standards.** Only one Montenegrin company now has HACCP certification. In the near future (January 2006), lack of such certification will make it impossible a food and beverage processor to export to the European market. Companies seeking to export juice products to the US market also must have HACCP certification.

**Regional Free Trade Agreement.** Montenegrin companies also lack knowledge about export regulations and procedures, and the Free Trade Agreement is not generally adhered to.

**Questionnaires for Monitoring and Evaluation (M&E).** When asked to complete the required company questionnaires, many companies have been reluctant to fully disclose financial information about their business operations. The project team has encouraged full disclosure and assured the companies that the information is completely confidential, but years of past experience has overridden these assurances. This is a client relationship and trust issue—little can be done beyond reinforcing our commitment to confidentiality and demonstrating that to clients.

**Problems With the Government Sanitary and Inspection Department.** Pirella is experiencing a very serious problem with reuse of its glass bottles (with the Pirella brand name on the bottle) by an unregistered company that is refilling the bottles with other juice products. Although another label has been applied, Pirella's name is still prominently displayed. Pirella is concerned about this misuse of its name, as well as the unsanitary use of these bottles. It has publicized this problem in the press and asked for assistance from the Government Sanitary and Inspection Department, but these requests have, so far, been to no avail.

Pirella's problem is symptomatic of three broader issues. The first and most pressing is public health and safety. The second is the risk presented by substandard products represented as a Montenegrin brand product. Substandard products can ruin the reputation of Montenegrin brand products and reduce local demand for Montenegrin products, not to mention export potential. The third is the lack of political will throughout the system to change the status quo. Although Government officials say there are laws on the books to prevent these problems, they state that additional resources are needed to enforce *additional* laws as well as those already in place. MCP has arranged a September meeting between all of the major players and USAID to address this issue, but the outlook is not promising. This situation represents an ongoing risk to licensed, legitimate processors throughout Montenegro.



## TOURISM

### Tourism—Overview

#### Goal 1: New Market and Product Development

1. Refine market assessment, identifying key sectoral opportunities (and, where appropriate, implementing project activities), for impact
2. Identify and establish relationships with private enterprises to begin demand-driven strategic planning to develop marketing potential (*To be subsumed under Subtask 3*)
3. Initiate product/service improvement training and education (*Previously under Goal 2*)
4. Promote “Discover Montenegro” market development positioning and branding
5. Encourage return of cruise ships on the coast

#### Goal 2: Collaborative Sector Initiatives and Clusters

1. Develop sector strategy overview, identifying geographic and activity plans to expand tourism throughout Montenegro
2. Establish national efforts to bring Montenegro up to international expectations and standards
3. Identify key policies and obstacles to doing business
4. Coordinate and collaborate on regional cooperation within the industry to expand the limited season for tourism
5. Explore opportunities for regional coordination of tourism offerings within the Balkans

#### Goal 3: Investment Promotion and Finance

1. Identify potential opportunities for foreign investment in tourism assets
2. Conduct feasibility study for concerning use of Development Credit Authority to support tourism

### Progress Against Prior Year Work Plan

#### Goal 1: New Market and Product Development

1. *Refine market assessment identifying key sectoral opportunities (and, where appropriate, implementing project activities), for impact*

During the first year of the project’s life cycle, the tourism sector developed key relationships; established a clear and coherent strategy; communicated the project’s goals and priorities to all key constituencies and stakeholders; and most important, initiated substantial and effective implementation of the defined strategy. As part of this process, MCP advisors are evaluating market opportunities for the tourism sector on an ongoing basis. Key factors in this evaluation

are balance, cooperation, and practicality. There must be *balance* between the geographic regions of Montenegro; between short-, medium-, and long-term impacts; and between small, medium, and large firms, in providing project assistance. With the numerous players involved in the tourism sector, there must be *cooperation* among NGOs and other donors with the government, and with representatives of the private sector in order to ensure that scarce resources are applied to those efforts with the greatest impact. Finally there must be *practicality* in emphasizing tangible, relevant impacts achieved by means of realistic plans and efforts that leverage limited resources.

MCP efforts with the Sveti Stefan tender process is a clear example of these principles. The concession for Sveti Stefan is critical to the future of the tourism sector in Montenegro, and yet if the tender does not go off smoothly it can have immediate impact on international investors perception of Montenegro. It could also have a significant effect on how the Meetings, Incentives, Conventions & Exhibitions (MICE) tourism market looks at Montenegro as a prospective new offering. If the tender is finalized in an effective and transparent manner it could have a tremendous impact on tourism. To be successful, these efforts require cooperation with the GoM, other donors and the international investment community. Finally, our efforts are practical providing assistance where it makes the most sense and letting other actors carry the water where it makes the most sense for them to do so. This is not to say that MCP has not pushed the process when needed. All of these considerations reflect the ongoing process by which tourism opportunities are evaluated.

2. *Identify and establish relationships with private enterprises to begin demand-driven strategic planning to develop marketing potential.*

These activities are discussed under Subtask 3.

3. *Initiate product/service improvement training and education*

## **Firm-Level Assistance**

The following paragraphs describe the scope and nature of some of our firm-level assistance activities:

**The Balloon and Aviation Tour Company.** This company was started to provide aviation-related recreation and tourism activities. Products include balloon rides for special occasions, balloon tours throughout Montenegro, and charitable activities involving aviation experiences for disabled children and orphans. The owner is currently trying to launch a helicopter service for tourists on the coast, providing rides and excursions.

This very small firm has a motivated and open owner/manager. He has acknowledged that his background and experience are technical in nature, and that therefore marketing and promotional assistance, in particular, is very helpful. The firm has encountered numerous regulatory and administrative barriers to business, including onerous and irrelevant inspections and extensive paperwork requirements by myriad administrative entities. These barriers are not atypical in Montenegro, but nonetheless hinder business formation and decrease entrepreneurship.

## Activities and Results

- Assessed firm business approach through comprehensive review of the firm's strategy, marketing, and operations
- Worked with owner to assess strategic and product options, evaluating alternative pricing and product packaging alternatives in particular
- Developed new promotional material in the local language and English
- Arranged meetings between owner and regulatory agencies that have a potential impact on the firm's operations
- Assisted in efforts to gain military, government, and NGO support
- Helped increase asset utilization and productivity by restructuring balloon tour duration and timing.

The firm was able to significantly improve its marketing materials and efforts, modify existing tours, and design new tours that were more realistically priced, as well as exploring the possibility for coastal helicopter tours, a new product, for future seasons.

**Danica Hotel.** Danica Hotel is a private 30-room, 88-bed hotel in Petrovac. The hotel draws the majority of its guests from tour operators, with the greatest numbers provided by British and Scandinavian tour operators. The owner is interested in expanding the hotel's presence abroad and in providing a product that meets the needs of the international customer. Although the owner's background is not in tourism, she is very open to new ideas and is committed to improving the product. In addition, the owner is now president of Montenegro's Hotel Association. Our goal was to serve as a sounding board for the owner's operational and marketing ideas and to provide assistance in marketing and sales efforts, with particular emphasis on Internet and electronic distribution, as well as on brochures and other promotional materials. We also assisted in efforts to gain public sector and NGO support for the owner's industry organizational efforts.

## Activities and Results

- Translated and edited hotel association brochure for smaller hotels in Montenegro. The piece was used at ITB in Berlin and at other tradeshow and was the first brochure produced by this key cluster organization.
- Completely restructured guest feedback system and comment card, which will significantly improve the property's ability to gain accurate and useful customer feedback and will serve as a model for similar assistance to other firms.
- Supported efforts to gain funding for nature walk adjacent to hotel.

The above efforts and activities have improved the hotel's product and put it in a stronger competitive position.

**Travel Agency Mornar.** This travel agency in Petrovac specializes in inbound business, with an emphasis on room rentals during the peak summer season. The agency, like other small agencies in Montenegro, has found it difficult to compete effectively with larger, more established entities, particularly because of the disproportionate and especially burdensome impact that regulatory, administrative, and inspection regimes have on a small business of this type. The owner and staff are very interested in improving their marketing skills and in more effectively reaching the international inbound market.

### Activities and Results

- Provided general small business consulting services, with an emphasis on marketing, sales, and electronic distribution.
- Provided counsel on use of the Internet as a practical and potentially low-cost tool for reaching potential customers. Demonstrated a range of Internet marketing tools to agency staff, including Google AdWords, user content-based Web sites, search engines, etc. Also assisted in issues related to agency URL and website presence.

Our efforts helped the agency improve its web presence and compete more effectively against larger agencies.

**Restaurant Lane.** This restaurant offers local cuisine in Podgorica. The foreign/expatriate market offers business opportunities for a restaurant of this type situated in Podgorica. However, the restaurant is relatively unfamiliar with the needs and preferences of this market. to the project team offered assistance on language-related issues.

### Activities and Results

- We fully translated the menu and added notations for heart-healthy and vegetarian options. This was in some regards a test or demonstration project for our plan to provide translation assistance and support on a larger scale for the industry.

The restaurant can now more effectively serve the foreign market, and we gained experience that will increase the efficiency and effectiveness of our planned Translation Open Houses and other restaurant-focused efforts.

**The Bar Tourism Faculty.** This faculty is not only the first private faculty in Montenegro, but also the country's only private sector institution of higher learning in the tourism field. The students at this faculty will become the future leaders of the tourism industry in Montenegro. In addition, the faculty provides an excellent example of the effective application of modern business principles to the educational process. Faculty members are extremely open to partnerships and to new ideas. We have participated in the faculty's academic curriculum by teaching and will also bring experts in specific technical areas to teach.

### Activities and Results

- Initiated partnership with the faculty in development and refinement of the curriculum.

- Assisted faculty in marketing and sales efforts, including a public joint press conference during the peak student recruitment season.
- Provided strategic business counsel.
- Assisted in identifying and evaluating strategic partnerships, including a proposed partnership with business school in Paris.
- Taught the first in a series of seminars for students.
- Signed a memorandum of understanding (MOU) encompassing several areas of cooperation and partnership. The MOU sparked press interest and thus assisted in faculty marketing during the critical student application period.
- Provided feedback and input on several operational areas.

The project team's work with the faculty has already increased the faculty's visibility and, most likely, increased enrollment, as well as increasing student interest and satisfaction.

**Montenegro Tourist Centre.** This company provides tourists visiting Montenegro with information and assistance by telephone and website. As a separate business, it publishes a tourism magazine. The service provided to tourists is potentially valuable, although the financial viability of the business is unclear. The business owner is a small-scale entrepreneur. We provided the centre with small business consulting services, including strategic counsel and assistance in marketing and market development.

### Activities and Results

- Provided strategic counsel to help the owner focus his efforts and allocate human resources and capital more effectively to the most promising area of his business, which is most likely the publication component. Unfortunately, the owner demonstrated a somewhat limited willingness or ability to adjust the organization's activities or to take advantage of additional opportunities, such as expansion of the publication's reach to Serbia.

Although attitudinal barriers precluded a broader impact, the project team believes we did have an impact on the style and focus of the company's operation.

**Montenegro Hotel Association.** This organization represents smaller properties in Montenegro, all of which are privately owned and operated. It plays an important role in disseminating information among smaller hotel operators, in lobbying for less onerous regulation and administrative burdens, and in supporting training and knowledge transfer within the industry. In addition, it helps reinforce intra-industry, intracluster cooperation, which is generally lacking in Montenegro. We have supported the organization's activities through provision of STTA to members and through joint activities with the association. We also have assisted in collective marketing and sales efforts by association groups at trade shows and in other venues.

## Activities and Results

- Assisted in creating and translating the association's first marketing piece, which was used at the ITB show in Berlin and elsewhere.
- Gained commitment of organization to participation in upcoming STTAs.

Our activities have enabled the association to provide additional value to its members. Our assistance has focused largely on marketing communications and on strengthening this important cluster organization.

## Public Communication/Press

The project team considers it to be in the interest of the project and the client to publicize our activities and point of view. Press visibility has helped us participate in and catalyze public discussion of tourism and its role in Montenegro's present and future.

We have obtained significant coverage in newspapers and on various television outlets on a range of topics, including our holiday price benchmarking study, the first done in Montenegro, which catalyzed discussion on Montenegro's relative price and value position vis-à-vis its competition. Our initiatives to improve product quality and other topics have also been covered.

## Training and Education

We have tried to weave education and training through much of what we do, through informal conversations in individual and group settings with members of the industry, active participation in various industry forums, and public education efforts through the media.

In addition, we launched a more formal training and education initiative with three seminars held in June 2005. These seminars represent the beginning of a substantial series of training and education programs that will include both broad and highly specific and technical skill-building components.

The first two MCP tourism sector seminars were held on June 15 in Podgorica and on June 17 in Becici. These seminars were targeted at owners and managers of hotels, travel agents, and restaurants. The emphasis was on practical, usable skills in operations and marketing, as well as on the increasing, changing expectations of the international guest. The seminars were well received by participants, with an average rating (on a scale of 1 to 5) of 4.8 in Podgorica and 3.9 in Becici (4.3 except for one outlier). Substantial media coverage was obtained on TV CG and MBC and in national newspapers. This coverage discussed the project and the specific areas within tourism on which we have been working.

The positive feedback from these seminars has reinforced our belief that there is a tremendous need and opportunity for this type of education and training in the sector.

**Tourism Faculty Seminar.** On June 16 at the Faculty for Tourism in Bar, we held a seminar on issues and trends in the tourism industry globally and on issues facing the Montenegrin industry specifically. The seminar was well attended, particularly given that attendance was voluntary

and the seminar was held during the final week of the academic year just before exams. More than 40 students were present. Media coverage, including coverage by daily newspapers, MBC TV, and Radio Antena, was substantial. This type of involvement with the Tourism Faculty is especially important because these students will become leaders in the future of Montenegrin tourism, and several already are working in the industry, some in management positions.

In total we had 65 participants at the three seminars, with an aggregate average rating by participants of 4.8 on a scale of 1 to 5.

In support of this subtask, MCP attended the following events:

**Wellness Tourism Workshop (organized by the Ministry of Tourism).** This workshop addressed current issues and trends in wellness tourism worldwide. An international expert made an extensive and detailed presentation.

As a major trend in tourism worldwide, wellness is also a subject of importance to the Montenegrin industry. The project team wished to take advantage of this update and to use the occasion to discuss possible wellness-related products with certain key hotel operators. In addition, the Sveti Stefan project (in which we have played a leadership role) is expected to include a wellness component.

We gained a good sense of some current issues in the area and had the opportunity to discuss wellness and spa concepts with hotel operators.

**Unleashing Entrepreneurship for Developing Sustainable Tourism in the Durmitor National Park Region (organized by UNDP).** This meeting was intended to discuss issues and identify opportunities associated with sustainable tourism in the Durmitor region, with an emphasis on support and growth of small entrepreneurial businesses.

Small and micro enterprises are the key to development of tourism in the North and will be the vehicle for bringing economic benefits to the region through tourism.

The project team met several business owners, as well as local government personnel and outside experts that the United Nations (UN) has brought in. The team discussed with the UNDP our possible joint and mutually supportive activities in the region.

#### *4. Promote “Discover Montenegro” market development positioning and branding*

We have held several discussions with the Minister of Tourism, as well as with other entities, such as CHF, regarding matters of branding and positioning. The Minister has invited our input on how to best project Montenegro’s image in the marketplace. Specific suggestions have been made in the area of public relations and communications in the international marketplace, specifically, as well as more general counsel. We plan, over the coming year, to continue to be active in this important area. We will continue to provide direct input to the Ministry on branding, position, differentiation, and image projection for the Montenegro brand. The coming months will be a particularly opportune time in this regard, as the political environment and pending independence referendum will likely increase the openness of the Government to more aggressively promote Montenegro as a discrete entity. Promoting the Montenegrin brand in the

context of tourism and destination marketing is an excellent vehicle for promotion of foreign investment generally, as well as consonant with the current goals of the Government. We will provide assistance in matters of positioning, differentiation, communications strategy and tactics, visual identity and other components of the brand.

In addition, we will work with CHF to assist in their efforts to create an identity and sub-brand for the North that is consonant with overall Montenegrin positioning and branding, yet which develops a distinct and relevant image for the region.

*5. Encourage return of cruise ships on the coast*

Increased cruise ship visitation continues to represent a significant opportunity, particularly for the Port of Kotor. The recent experience of at least one major cruise line has not been positive in this regard and, given the history and the extremely competitive market for port calls, it will be challenging to repair the somewhat frayed image of the Port. Nonetheless, because of the magnitude of the opportunity (a large cruise ship can produce over 2,000 "visitor days" per visit, and up to 15,000 or 20,000 per season), it is important and worthwhile to fully explore the possibility of getting a major ship to make a port call in Kotor once again. We will utilize industry contacts to communicate with major cruise lines and, to the extent possible, assist local government and industry in creating an effective product offer and marketing package, in order to more effectively communicate the benefits of Kotor to the cruise lines.

**Goal 2: Collaborative Sector Initiatives and Clusters**

*1. Develop sector strategy overview, identifying geographic and activity diverse plans to expand tourism opportunities throughout Montenegro*

Because several cluster-based organizations already exist, the project team attempted to build clusters and cooperation by working closely with existing sector organizations such as the Small Hotel Association, which represents small, private entrepreneurial establishments throughout Montenegro.

There are numerous obstacles to effective intracluster cooperation, and thus to the implementation of sector initiatives. There is an overarching atmosphere of mistrust and frequently a belief that business is inevitably a zero sum game, in which collective effort results in a loss of competitive position rather than the creation of value for the group as a whole. This is especially problematic in the tourism sector, where certain forms of cooperative and collective marketing, such as for the group and convention market, is critical.

There is also often resistance to new approaches and an acceptance of the status quo. This acceptance is reinforced by the perception that any forward movement or productive change will be stifled by government, regulatory, and administrative burdens—by what is often referred to as “the System”—which will cause any incremental benefits to be lost to administrative and regulatory burdens and corruption.

*2. Establish national efforts to bring Montenegro up to international expectations and standards*



Participation in international and regional trade shows represent a critical element of this subtask in order to gain an understanding of the most recent tourism trends and customer preferences. We attended the following event in pursuit of this goal:

**World Travel Market—London (Private Congress Entity).** The World Travel Mart is one of the two most important travel fairs globally (ITB is the other). It is a magnet for exhibitors and attendees from around the world and provides a window on trends, the activities of major tour operators and destinations, and the competitive situation. In addition, the show attracts most major British tour operators, who are potential customers for Montenegro.

At this show, the project team obtained a broad range of brochures, promotional material, and information that would otherwise not be easily available in one place. We made contact with several tour operators who were either doing business with Montenegro or *could* do business in Montenegro. During these contacts, we discussed concerns about Montenegro as a tourist destination, including quality of accommodations, general area infrastructure, capacity to serve large groups, value, quality of service, and language skills. These are all serious issues that the industry will need to address to become more competitive. MCP is an active protagonist in this area.

**ITB Berlin (Private Congress Entity).** ITB is the largest travel trade show in the world, with attendees and exhibitors from virtually every destination, tour operator, airline, and travel support services provider in the world. Montenegro, and all of Montenegro's competition globally, exhibits at the show. ITB offers a window on virtually every aspect of the industry and the opportunity to meet major German tour operators. We obtained a comprehensive set of brochures, information, and promotional material for use in the project. The project's focus at the show was on niche product operators. In this area, we got a better sense of the competition in eco-tourism, adventure tourism, youth tourism, etc., and made contacts in these segments with potential operators for Montenegro. We also met with several major hotel operators, informing them about Sveti Stefan.

### *3. Identify key policies and obstacles to business*

**Summer 2005 Coordination Body.** Established by the Ministry of Tourism, this group is charged with improving infrastructure conditions, as well as the regulatory and administrative environment for tourism during the summer season. It has launched an important initiative to remove trash from major roads and visitor frequented areas.

The project team is the only foreign/NGO entity that has participated in this event, which gives the project enhanced visibility among key decision-makers at the national and local levels; shows our commitment to tangible, relevant action; and amplifies our voice on policy matters. It also facilitates our more tactical, immediate activities by keeping us informed about the latest issues arising for the key summer season. We have contributed several ideas to the Body, provided input on a number of issues, and made relevant contacts in the private sector, particularly at the municipal level.

### *4. Coordinate and collaborate on regional cooperation within the industry to expand the limited season for tourism*

In support of this subtask, we attended the following events:

**14th International Tourism Fair Budva (Private Congress Entity).** This Montenegrin travel fair, while limited in scope, provided insight into the current situation in the Montenegrin industry, including some perspective related to who did and who did not attend and exhibit. We observed the state of the exhibition facility in Budva, since the Meetings, Incentives, Conventions & Exhibitions (MICE) tourism market will be an upcoming focus of the project. The project team also discussed opportunities to develop the MICE market with a number of Montenegrin firms and made contacts for future engagement in this market segment.

**Souvenir Fair (Private Congress Entity).** This is an annual souvenir fair promoting and presenting Montenegrin crafts and souvenirs. There is currently a shortage of locally made and crafted souvenirs. This show is designed to present these products to the industry. At this show, we assessed the current supply of souvenirs and gained a sense that some of these vendors could be included in a project-sponsored trade show.

**UNDP Hosted Donor Meetings.** These meetings, which occur on a monthly basis, are designed to give donor organizations involved in tourism in Montenegro a forum for communicating about current and planned activities, sharing ideas, and coordinating activities.

There are many foreign donor organizations and projects active in Montenegro, and it is easy for duplication to occur and for opportunities for cooperation and coordination to be lost. This forum enables us to build and reinforce our relationships with other organizations and to identify previously unseen opportunities for relevant impact.

We have derived a number of new ideas and opportunities from these meetings, and further focused existing ones. For example, we have confirmed the need for an Adventure Travel STTA in the North, and input from the meeting has helped us to focus the specification. We have obtained commitments of support and cooperation for several of our other activities, such as translation workshops, in which other donors will assist with facilities, funding or implementation.

**UNDP Sustainable Tourism Strategy for Northern Montenegro Meetings.** The UNDP focuses on assuring that the north of Montenegro develops tourism in a rational, sustainable manner. The project team has a close, productive relationship with UNDP, which allows us both to remain fully informed about tourism-related developments in the region and to have substantial input into activities there. We will continue to work closely with UNDP on initiatives in the region.

**Planning Activities for 2005—Montenegro Hotel Association and GTZ.** This association is an accepted and effective, although still emerging, representative of smaller hotels in Montenegro. This meeting was designed to plan their focus and activities for 2005.

The association has become an important project partner. We have assisted it in numerous ways and they, in turn, have helped us reach their members, generated interest and attendance at our seminars, and supported our efforts.

**PACA (Participatory Appraisal for Competitive Advantage) for Budva Area.** These workshops are the vehicle through which IRD, as a USAID implementer, develops and defines projects and activities that will be funded and supported, using a community-based, bottom-up approach. As the primary USAID implementer in the Southern portion of Montenegro, IRD plays an important role in tourism. This workshop helped us understand the process and enabled us to meet key community leaders in the Budva region so that, as these projects are developed, we can play a role in their implementation.

**Mountain Tourism in Montenegro—World Trends and Regional Experience.** This conference, organized by UNDP and the NGO Natura, focused on mountain tourism of all varieties and on how Montenegro can more effectively participate in this growing but very competitive market. Mountain tourism is also one of the areas the project is focusing on and an area to which we will bring particular expertise. UNDP is one of our two primary partners in this effort.

At this conference, exposure to experts in the field and to local participants in the industry was valuable. The program and our discussions with UNDP and other entities working in the mountain tourism field have helped us focus our efforts and avoid duplication of effort.

**29th Furniture, Hotel Equipment and Interior Decoration Fair Budva (Private Congress Entity).** At this trade show for the hospitality industry in Montenegro, we observed the major vendors and level of attendance and assessed potential for a project-sponsored trade show designed to match small local vendors with the hospitality industry. We contacted several sellers and buyers in the hospitality industry.

*5. Explore opportunities for regional coordination of tourism offerings within the Balkans*

The project team has begun to explore opportunities for regional coordination, although we believe that these opportunities are generally less promising in the near term than are opportunities for projection and marketing of the Montenegrin national and regional brands.

In the area of coordination, we have had discussions with tour operators that are offering tours to Dubrovnik and believe that there are opportunities for Montenegro to get add-on business from visitors to Croatia seeking an additional and less discovered destination. In addition, we have held discussions with our sister project in Serbia about areas for cooperation and have provided this project with some of the work we have done.

MCP was represented at the following events in support of this subtask:

**IFT Belgrade (Private Congress Entity).** IFT is the largest travel trade show in Serbia and Montenegro. The Serbian market continues to be the dominant source of business for Montenegro, although competition in this market is increasing substantially. IFT provides an excellent window on the current travel trends in Serbia, on the major tour operators' directions, and on competitive offers. At the show, we discussed the market situation and trends with tour operators, competitive product offerors, and the Montenegrin exhibitors and obtained current promotional material.

**International Business-to-Business Forum.** This conference, organized by the MBA, CIPE, and CEED, brings together major participants in Montenegrin and Southeastern European business. Unfortunately, very few Montenegrin businesses were represented. Nevertheless, we made contact with several Montenegrin, Bosnian, and other firms from the region.

### **Goal 3. Investment Promotion and Finance**

#### *1. Identify potential opportunities for foreign investment in tourism assets*

**The Sveti Stefan Initiative.** Sveti Stefan is undoubtedly the most distinctive tourism asset in coastal Montenegro. Unfortunately, the value of this special asset as a magnet for tourism in Montenegro has been substantially depreciated and limited over the years because of extremely poor operational and physical asset management. As a result, Sveti Stefan, while still a magnificent physical setting, is realizing only a very small part of its tremendous revenue-generating potential. More importantly, the potential role of Sveti Stefan as a catalyst for increased visibility and appeal of Montenegro as a tourist destination that offers unique experiences is also not being realized.

The property is operated by a state company, Budvanska Riviera, at a level that can be described as two- star at best. The GoM has wisely decided to offer a long-term lease (probably 20–35 years) to an international operating company that will be expected to bring Sveti Stefan up to, and surpass, its previous position as one of the world’s unique lodging and leisure experiences. In addition to Sveti Stefan, two adjacent properties, Villa Milocer and the Queen’s Beach Hotel, will be included in this transformational tender. Villa Milocer is a beautiful royal villa of classical design, set in a park on its own beach. The Queen’s Beach Hotel is a 1970s era hotel (which includes several older villa-like out-structures), which might be demolished or completed restructured and replaced with a four-to-five star international class property capable of hosting meetings.

It is clear that this tender will be the most important of the many involved in Montenegro’s tourism to date. At the Berlin ITB conference, MCP advisors confirmed that it is absolutely critical that the Sveti Stefan tender be implemented in a manner that is transparent, appropriate to the scale and nature of the assets, and extremely well structured and communicated, else Montenegrin ran the risk of being ignored by the most prominent international tourism investors.

The project team’s leadership role in the planning and implementation of the Sveti Stefan and associated properties has been ongoing, continuous, central, and critical to the ultimate realization of the tender, which was issued in May.

Our multifaceted role includes the following components:

**Initial Counsel on Tender Strategy, Process, Timing, and Approach.** We had extensive discussions with the Minister of Tourism and with a number of involved parties on the overall approach to the tender process. These discussions addressed issues such as whether the three properties should be included in a single tender, the advantages and disadvantages of a discrete phase for expressions of interest, etc. We also provided substantial guidance on the economic value of the assets to a potential lessee, various structural alternatives, issues of term, and components of risk.

We identified the likely pool of bidders and the importance of effectively and broadly publicizing the tender, to signal the openness of Montenegro to foreign investment, and to foreign operators in the tourism sector.

**Counsel on Tender Process and Timing.** We provided detailed counsel on the timing for the tender and on a number of issues we felt must be addressed to reassure bidders, and the international hotel and real estate community generally, including information that the process would be transparent, equitable, and rational—something that had not always been the case in past privatizations in the sector.

**Creation of Tender Content and Structure.** Developing the tender document included creating initial discussion documents outlining the general purpose of the tender, the role of the management company and the major criteria for the bidders' background, expertise, and experience. A vision and positioning statement for the assets and clear standards of operation and design were created. This latter component was especially important, because all previous privatizations had been effected with a complete lack of attention to the ultimate standard of the property's appearance, design, operation, and branding. As a result, far less improvement in Tourism industry's standards, image, and actual product quality has been achieved. A comprehensive and detailed set of criteria was described, which resulted in an aggregate picture of the type of design and operation that was expected and would be required.

**Creation of Related Tender Materials (Advertisement, Letter To Bidders).** A range of documents related to the tender, including a camera-ready bidder solicitation advertisement, a letter to potential bidders, and other support documents, were created.

**Liaison With Current Operator.** The project team met with the current operator of Sveti Stefan, Budvanska Riviera, to gain a better perspective on the current management's perspective and approach, and to help build consensus for our approach to the tender's content and approach.

**Assistance With Tender Marketing and Bidder Solicitation.** Using our contacts and background in the international hospitality industry, we contacted a number of senior decision-makers of major international hotel operators (generally at the CEO or SVP level) to inform them personally about the properties and their potential, and stimulate curiosity about, and interest in, Montenegro, regardless of whether they decide to bid for these properties at this time.

**Ongoing Counsel in Tender Process.** We continue to be centrally involved in the process, meeting on an ongoing basis with the Minister of Tourism, the Principal Officer of the US State Department in Podgorica, and other parties interested and involved in this matter. We have suggested and will participate in a small task force designed to ensure that the process proceeds in an integrated, appropriate, and productive manner, and that all relevant parties are kept informed of its progress.

Although our involvement with the Sveti Stefan properties was not anticipated at the outset of this project, we consider it to be an example of the importance of remaining flexible and taking advantage of opportunities that may emerge to make a substantial difference in the tourism sector over the immediate and long term in a visible, distinct, and impactful way.

**Other Investment Efforts.** MCP promoted Montenegro as a tourism investment destination at the following events:

**Buljarica Bay Workshop.** This workshop, organized by a developer, Mr. Rolf Eggeman, was designed to present a proposal for, and generate discussion on, the development of one of the last remaining Montenegrin seaside parcels, which includes all of a beautiful bay. This is a major development opportunity, but one that must be exercised with great care and attention to ecological and sustainability issues, requiring wise development practice, to avoid the shore blight that is so prevalent throughout the Montenegrin coast. One of our strategic initiatives includes a role in influencing the direction and nature of this type of development.

We provided input on the proposed scale and design of the development, with particular attention to the proposed lodging component, which was not ideally conceived.

**Berlin Hotel Investment Conference.** This conference is the pre-eminent European Hotel Investment conference, with senior-level individuals from hotel operating companies, private and publicly held investors, and consultants attending. The conference provided a superb opportunity to identify and communicate with potential operators and investors in Montenegro, and to familiarize them with current and potential opportunities for both investors and brands in Montenegro.

The project team was able to communicate about opportunities in Montenegro to a number of past associates in the hotel business, including several CEOs of major international hotel chains and investment funds. We spoke about Montenegro in general as an operating and investment venue, and more specifically about the Sveti Stefan complex and the opportunity there. In addition, a contact was made with an individual who has extensive experience in the privatization process in Montenegro, who provided extremely valuable insights and counsel on the Sveti Stefan issue, and the Montenegrin operating context in general.

## *2. Conduct feasibility study for use of DCA to support tourism*

DCA was discussed as a general alternative that could assist financial organizations in potentially making more loans tourism. Following a USAID assessment of the situation in Montenegro, it was subsequently agreed that DCA was not a likely route at this time and further discussions of DCA have been tabled.

## **Proposed Changes and Refinements to Activity for Future Year**

Our focus, initiatives and operation have been driven by the detailed strategy document that was developed last year. We intend to continue to implement the initiatives detailed in that document, though we remain cognizant of the fact that we must remain flexible, adjusting our activities as circumstances warrant. We do expect that there will be an increased level of involvement in privatization activities in tourism, including Sveti Stefan and some additional properties with which we have been invited to assist. The privatization/tendering process will have a significant impact on the future of tourism in Montenegro and is an area in which we have been able to make a meaningful difference thus far through our involvement in the Sveti Stefan process. The one area in which we may adjust our level of anticipated focus downward is the area of trash and external cleanliness. We have already established involvement through

participation on public/private committees but have found that a more selective approach in which we work closely with other organizations already active in this realm is likely more realistic.

We will also shift some of the tourism workstream tasks and subtasks to more accurately reflect the evolution of activities over the past year. We propose to shift Subtask 3, Product/Service Improvement Training And Education, efforts, previously under the collaborative activities and cluster development goal, to the new product and market development goal. We also proposed that Subtask 2, “Identify and Establish Relationships With Private Enterprises to Begin Demand-Driven Strategic Planning Efforts at Developing Marketing Potential” under Goal 1, be merged with the “Product/Service Improvement Training and Education” (Subtask 3). MCP has moved beyond the initial identification of counterpart firms to more active technical assistance activities, and this shift reflects that progress. We will continue to look for new firms and opportunities to engage Montenegrin firms in assistance and training activities.

### **Problems or Obstacles Encountered**

As described in our strategy document, bureaucratic and administrative impediments, linked with a parochial and closed attitude toward change and improvement, have continued to be the major barriers in efforts to maximize our impact.

Specifically, many businesses feel that they do not need assistance, as the status quo is often acceptable to them, even when in reality their performance and economic returns are quite poor by any measure. They often feel that any improvements in operating performance would soon be constrained or offset by bureaucratic constraints of “the system.” These include taxes or fees, onerous inspection regimes, cronyism, and bribes, all of which suppress business formation and limit entrepreneurial motivation and activity.

The government, while at times outwardly open to change and seemingly supportive of business, is far more driven by personal relationships, conflict of interest, and desire for personal gain, financial and otherwise, and is limited by poor management and leadership skills.

In the tourism sector specifically, few people have international exposure or experience, and thus have a sense of the reality of Montenegro’s competitive position, and the relevance and severity of many of Montenegro’s current product limitations, such as aging infrastructure, widespread trash, poor service, poor marketing, and limited language skills. The artificial demand of the previously captive Serbian market has led to an often complacent attitude. The inaccurate perception that their businesses can operate only 2 months per year has limited any openness to creative approaches to enhancing revenue over a broader time period.

### **Other Developments or Events Having the Potential to Significantly Affect Performance or Progress Toward Targets**

We are not aware of any major developments or events that would significantly affect performance or progress toward targets, though we remain cognizant of the potential for such developments. Of course, changes in the political environment, or more specifically additional violence or instability in the Balkan region generally or Montenegro specifically, could create an immediate and substantial challenge for tourism.

In addition, the relatively limited resource level of the project at times presents a challenge to the timely and comprehensive completion of all planned initiatives, though this is a challenge we have thus far been able to successfully meet.



## WOOD PROCESSING

### Wood Processing—Overview

#### Goal 1: Export Development and Promotion

1. Establish a marketing committee within the Wood Sector Task Force
2. Carry out technical audit of 10 largest private firms
3. Define key sector opportunities, and where appropriate, implement project activities for impact.
4. Identify and establish relationships with private enterprises to begin demand-driven strategic planning efforts at developing marketing potential
5. Identify the full wood industry supply chain and engage key players

#### Goal 2: Collaborative Sector Initiatives and Clusters

1. Develop sector strategy overview
2. Establish a comprehensively representative Forest Products Industry Task Force
3. Complete a SWOT analysis and a needs/gap analysis with the task force to come to a consensus on the national strategy for the wood sector
4. Establish the Forest Products Research Center within the Faculty of Forestry, offering international affiliation and recognition and related credibility
5. Establish the Forest Products Institute, under the auspices of the Faculty of Forestry and the Ministry of Tertiary Education
6. Establish a technology committee within the Wood Sector Task Force to determine required upgrades to meet international standards of quality and performance
7. Assess regional linkages
8. Establish a supply chain committee

#### Goal 3: Key Policies and Obstacles to Doing Business and Approaches to Address

1. Establish an advocacy committee within the Wood Sector Task Force that will work directly with the Forestry Directorate

#### Goal 4: Investment Promotion and Finance

1. Establish a Finance Working Group to engage banks, donor agencies, EBRD, IFC, Ministry of Finance, Ministry of Economic Development, and other stakeholders in the financial community to develop investment plans
2. Conduct feasibility study for use of DCA to support the wood processing sector

## Progress Against Prior Year Work Plan

### Goal 1: Export Development and Promotion

#### *1. Establish a marketing committee within the Wood Sector Task Force*

MPC formed the ad hoc Wood Sector Task Force among selected stakeholders and held three strategy workshops. Following this series of strategy workshops involving the stakeholders in the wood industry, the task force members and the MCP advisors concluded that the top priority issues were the dysfunctional supply side and the bankruptcy of 12 large state-owned enterprises. These two issues are linked because the bankruptcy proceedings were not controlled by the Commercial Courts as they should and the enterprises continued operations rather than being liquidated. Further, the procedures for supply of logs linked these bankrupt enterprises to the annual concessions granted for the supply of logs. With these matters obstructing progress in the private sector, the task force decided to place the marketing efforts on a timetable to follow the changes in regulations on the supply of logs and the completion of the bankruptcy proceedings. The task force will formally organize itself into the Wood Industry Council during the second half of 2005. The marketing committee will be formed during the first General Assembly.

#### *2. Carry out technical audit of state-owned enterprises and 10 largest private firms*

The project's advisors conducted technical audits of all state-owned enterprises and interviewed managers and court-appointed administrators. Twelve state-owned enterprises are integrated operations, including sawmills, that have various process lines and finished goods, including panels, flooring, doors and windows, lumber, elements, and furniture components. All of these enterprises have been placed into bankruptcy and are in the control of the Commercial Courts. These firms are in significant disrepair and require restructuring and retooling.

The advisors also conducted technical audits of many medium-sized private sector enterprises, interviewing their managers and owners. MCP met with all relevant donor agencies to determine their level of interest and specific objectives for the wood sector. The purpose of the meetings was to gain possible synergy and to avoid redundancy. MCP also met with all relevant government ministries and departments in an attempt to clarify regulations and policies respecting the wood sector.

#### *3. Define key sector opportunities, and where appropriate, implement project activities for impact*

Much of the sectoral efforts in the wood industry have focused on policy and regulatory efforts that present serious obstacles to broader commercial activities for the sector. MCP advisors have focused efforts on building regional ties that will serve both commercial and policy efforts to strengthen the sector. Such efforts include discussions with the Head of the Austrian Embassy Office for Technical Cooperation in Belgrade for the restructuring plan for the Serbia Sume (state-owned forest company) and with relevant government officials in Ljubljana, Slovenia, to discuss bilateral agreement on wood sector best forestry services practices, as well as SME development in the sector. MCP developed an SOW for assistance to the Montenegin government in drafting a proposal for a bilateral agreement with Slovenia that will result in the adaptation of best practices within the wood sector and calls for cooperation in negotiations and

the execution of such an agreement. The Ministry of Agriculture has executed an MOU with MCP to support these efforts.

*4. Identify and establish relationships with private enterprises to begin demand-driven strategic planning efforts at developing marketing potential*

**Firm-Level Assistance.** 1) The director of the Javorak company requested our assistance with sourcing of beech elements or beech lumber to fill orders during the winter season. MCP prepared a list of suppliers for beech elements from Bosnia, Serbia, and Montenegro and presented them to the company. This cooperation and collaboration built trust and lead to commercial interplay among regional stakeholders. 2) MCP assisted the Bambis company on a cost-share basis to attend the Ligna Fair and helped in negotiations with Barberan to buy new equipment. 3) MCP also provided a list of suppliers of aged planks to Defania for further processing into hardwood furniture components. 4) MCP has introduced all wood companies to the Serbia and Montenegro Export Credit Agency (SMECA) and has invited SMECA to deliver a presentation to the task force members. SMECA has also joined MCP on several individual company meetings to determine the potential financial assistance available to increase exports. These companies include Lancer, Bambis, Javorak, Doding, Jela, Impregnacija, Boj Komerc, Donji Brezna, Montil, Tilia, Kurti, and Balkan Timber

*5. Identify the full wood industry supply chain and engage key players*

During the sector investigations, the advisors identified a significant barrier to private sector development regarding the supply of raw materials in the wood sector. The traditional scenario has been under the socialist regime, whereby 12 state-owned enterprises each had annual concessions for access to the forests and the annual allowable cut of trees in a specific region. These concessions were granted on a tender basis, although the qualifying criteria for participation in the tender process essentially defaulted to a state-owned enterprise anyway. This system of annual concessions continues today, and although the 12 enterprises have been placed into bankruptcy, they are still bidding on the concessions, essentially locking out the private sector based on the qualifying criteria.

A second significant matter in the supply of logs is that of smuggling. It is estimated that 500,000 cubic meters of logs are sold to Albania, Serbia, and Kosovo annually. In addition, some logs are sold to Bosnia illegally as well. The smuggled logs chosen for this activity are the ones of the best quality, leaving the wood industry in Montenegro with lower quality logs and thus lower throughputs and yields.

The supply of ancillary goods and services is unorganized and not cost-effective. The Wood Industry Council, to be formed in late 2005, will form a procurement and supply committee to address the matters of the supply chain. The Council will study the feasibility of free zones as well as joint procurement for imported items. Further the Committee will analyze the near-term market demands as the private sector grows toward its objective of 600,000 cubic meters of processed goods annually. This level of finished goods production will demand various ancillary products, and it may be possible to mount operations for domestic supply.

## Goal 2: Collaborative Sector Initiatives and Clusters

### *1. Develop Sector Strategy Overview*

**Development of Sector Strategy.** Working closely with the Directorate of Forests and the Ministry of Agriculture, Forests and Water Management, MCP contributed input for the Economic Reform Agenda (projected through 2007) and reviewed other published reports on the wood sector. The advisors reviewed and discussed the Government Plan for the Rehabilitation of the Wood Sector as developed by the Ministry of Economy. As mentioned previously, MPC formed the ad hoc Wood Sector Task Force among selected stakeholders, holding three strategy workshops to gain insight and gather opinions from stakeholders across the industry, government, and donor community, and subsequently drafted the national strategy report for the wood sector. This first national strategy for the wood sector has been accepted by the Ministry of Agriculture, Ministry of Economy, and Directorate of Small and Medium Enterprise Development, and the key strategic initiatives have been incorporated into the Economic Reform Agenda.

### *2. Establish a comprehensively representative Forest Products Industry Task Force*

**Formation of the Wood Industry Council.** -- MCP brought in Mr. Nicholas Hahn (STTA) to assist in the formation of an apex private sector organization for the wood sector. MCP held two workshops on the formation of the Wood Industry Council trade association with key stakeholders and held meetings with representatives of the Chamber of Commerce, MBA, Union of Employers, and SMEDD on the formation of the Wood Industry Council, which would take the place of the ad hoc Wood Sector Task Force in late 2005.

The objective of the scope of work was to design a legal and organizational structure for the Wood Industry Council, as well as a business plan, articles of association, and associated documents to be presented to all vested interest stakeholders, related agencies, and institutions involved in the forest products industry. It was proposed that the Council's major responsibilities in the industry would include—

- Performing strategic planning and providing advice on regulatory, technical, and commercial requirements conducive to sector growth and development
- Defining and prioritizing the operational and policy barriers to competitiveness, while monitoring the progress of such issues
- Establishing standing committees to address all commercial aspects of the industry including financing, distribution, marketing, design, workforce development, technology, research
- Facilitating dissemination of technical and trade information through training and awareness programs
- Establishing quality improvement systems by creating a code of standards and code of performance by defining and implementing a monitoring mechanism and by authorizing certification and recognition of achievement

- Monitoring and reporting on global trends in the sector by networking with corresponding international bodies and participating in global trade events
- Promoting products, joint ventures, and strategic alliances to enter the international market
- Establishing incentives and regulations to transform the illegal commercial activities and unregistered firms within the sector.

The Council would be organized as a private legal entity under the companies act and operated by an executive staff and governed by a board of directors with representation from manufacturers and marketers, related associations, academia, independent experts, related ministries, and consumer associations. It would be funded by membership contributions from stakeholders, an assessment on log purchases, project-specific grants, or self-funding activities such as trade shows and exhibitions. The work continues with Mr. Hahn and the various entities involved. The Council Articles are complete, and MCP is cooperating with the Economic Reform Agenda to register the new NGO. It may appropriate to have a bill passed in parliament, issuing a charter to constitute, or at least recognize, an autonomous Wood Industry Council. This will result in the first national private sector organization for the wood sector, fully recognized by the government and funded through a voluntary levy on log sales.

3. *Complete an SWOT analysis and a needs/gap analysis with the task force to come to a consensus on the national strategy for the wood sector*

During the three strategy workshops, the task force members and the advisors thoroughly analyzed the external and internal constraints on the wood sector in Montenegro. A SWOT analysis was completed and has been incorporated into the Strategy Report for the Wood Sector. The SWOT analysis confirmed the views of the task force members and assisted MCP in prioritizing the strategic initiatives for the first and second years of the project.

4. *Establish the Forest Products Research Center within the Faculty of Forestry, offering international affiliation and recognition and related credibility*

**SOW for Forest Certification.** MCP drafted an SOW to participate with the Luxembourg Government under the LUX-Development on the Forest Development in Montenegro (FODEMA) project. The SOW calls for the support of MCP in performing field tests that will establish a database for work on the Forest Certification project. MCP will organize and support specific field tests and generate reports. The secondary objective is to assist the government in incorporating the specific procedures, obligations, and rights of such policies into the Law on Forests and the Law on Concessions in Montenegro, yielding a practical, efficient, transparent, and sustainable supply system. The result of this intervention will be an open and transparent market and competitive advantage of certified raw material base.

**SOW for Small Diameter Tree Utilization.** MCP drafted an SOW to participate with the Luxembourg Government on the FODEMA project that calls for the support of MCP in developing a feasibility study on the proper extraction from the forests and the cost-effective end-use application of small-diameter trees. The related secondary feasibility study will explore the economic viability of a national program for rural residential heating, using the small-

diameter trees. This will result in proper forest harvesting, preclude misapplication of Class 1 hardwoods being burned for fuel, and offer a competitive solution to the government for rural municipal services.

*5. Establish the Forest Products Institute, under the auspices of the Faculty of Forestry and the Ministry of Tertiary Education*

During the strategy workshops and the subsequent SWOT analysis exercises, the Wood Sector Task Force members identified workforce development as a crucial strategic initiative. The task force agreed to place this on the agenda of the Wood Industry Council for late 2005. The advisors have also worked directly with senior representatives from the wood sector in Slovenia. Because Slovenia has joined the EU, the EU's standards and procedures can be adopted as a model plan for Montenegro. With regard to workforce development and training for the Wood Industry, ongoing cooperation between Faculty of Forestry and Biotechnical Institute in Slovenia appear to be functioning well. Preliminary discussions have been held on how Montenegro and Slovenia can work together to assist Montenegro in developing the workforce. These matters will be covered in the proposed Bilateral Agreement between the Ministries of Agriculture in both countries.

Regarding the upgrading of the Forestry Faculty in Montenegro, it has been observed that an independent faculty that is fully functional would be an expensive undertaking and would also generate more graduates than the wood sector could absorb over time. It has been decided that a student exchange program with Slovenia will be pursued.

Regarding the Tertiary Education aspect of workforce development, the Wood Industry Council will study the options for vocational training specific to the wood sector. MCP will assist with the study, and the Wood Industry Council will draft a proposal and pursue funding to upgrade a woodworking program with assistance from a donor agency.

*6. Establish a technology committee within the task force to determine required upgrades to meet international standards of quality and performance.*

After it is legally registered, the Wood Industry Council will hold its first General Assembly meeting at which the technology committee will be formed. The advisors and one private sector stakeholder attended the Ligna Fair in Hanover, Germany, and brought significant information back to Montenegro. Certain key companies that exhibited at Ligna have expressed interest in coming to Montenegro and meeting with the members of the Wood Industry Council. Preliminary discussions with these contacts indicate that they would contribute significantly to the objectives and activities of the technology committee.

*7. Assess regional linkages.*

**International Events and Symposia.** The advisors attended the Furniture Fair in Beograd. MCP also made arrangements on a cost-share basis to have members of the Wood Sector Task Force attend the Wood Processing Technical Seminar in Zlatibor, Serbia. The advisors attended meetings in Sarajevo and Banja Luka with donor agencies and ministries to investigate activities in the wood sector in Bosnia and Herzegovina. This resulted in cooperation with GTZ and IFC SEED on key initiatives, such as design competition and capital goods financing, to be

implemented by the Wood Sector Task Force/Council. The advisors and private sector stakeholders attended the Furniture Fair in Budva and the Furniture Fair in Novi Sad to assess the regional competition and market trends. The advisors also participated in meetings with government representatives involved in the wood sector in Serbia. MCP organized the Wood Sector Task Force participation in the International Certification Awareness Workshop, presented by SGS in Podgorica, which resulted in companies beginning the process certification for production. The advisors attended the Ligna Fair in Hanover, Germany, to better assist client firms in identifying opportunities for potential sales through improved quality and design by exploiting the latest technical innovations in the industry. At Ligna, preliminary negotiations were achieved between Bambis and Barberan for the acquisition of a process line. Further, the advisors made arrangements with Siempelkamp and Weinig to participate in critical technical and equipment technical assistance efforts.

#### *8. Establish a Supply Chain Committee*

The wood supply chain has been identified as dysfunctional due to significant issues with log concessions and crucial to the progress of the private sector in the wood industry. When the Wood Industry Council is formed in the latter half of 2005, the procurement and supply committee will be established.

There are also two specific SOWs addressing the supply issue. The first is the work on a Bilateral Agreement between Slovenia, which joined the EU, and Montenegro. This agreement will assist Montenegro adopting EU best practices in the Forestry Services as well as procedures for concessions. The second is the work on field tests for the FODEMA project to adopt international logging practices and the gathering of data needed to develop the guidelines for forest certification for Montenegro.

### **Goal 3: Key Policies and Obstacles to Doing Business and Approaches to Address**

- 1. Establish an advocacy committee within the task force that will work directly with the Forestry Directorate*

**Continuity and Concurrence.** MCP developed a working relationship with the Directorate of Forests and the Ministry of Agriculture, Forests and Water Management and the Ministry of Economy and continues to meet regularly to debate issues and establish priorities for strategic initiatives. The government has approved the initiatives and MCP has executed MOUs that commit the government to implement recommended changes to policies and regulations.

### **Goal 4: Investment Promotion and Finance**

- 1. Establish a Finance Working Group to engage banks, donor agencies, EBRD, IFC, Ministry of Finance, Ministry of Economic Development, and other stakeholders in the financial community to develop investment plans*

**SOW for Assistance to Commercial Courts.** MCP developed an SOW for assistance to the Commercial Courts in the preparation of Jakic and Gornji Ibar for the sale of assets and completion of bankruptcy proceedings and drafted an MOU for the government, which calls for certain procedures and formation of prospectus for each firm.

The objectives of the scope of work are to a) evaluate existing assets held by the two enterprises, Gornji Ibar and Jakic; b) develop an investment plan and subsequent business plan for each enterprise; and c) prepare a prospectus for each enterprise and distribute these among bona fide potential buyers in the EU, United States, and elsewhere. Because the government has successfully privatized several enterprises, it was recommended that the terms and conditions of these transactions be adapted for all future agreements of purchase and sale. The government has signed an MOU to a) place a 60-day moratorium on the tender process regarding Gornji Ibar and Jakic during the period for development of the investment and business plans; and b) offer a 60-day window of opportunity for the developer of the prospectus to secure buyers for Gornji Ibar and Jakic. This should result in the proper presentation of the companies for potential FDI.

## *2. Conduct feasibility study for use of DCA to support the Wood Processing Sector*

DCA was discussed as a general alternative that could assist financial organizations in potentially making more loans to MCP-assisted firms. Following a USAID assessment of the situation in Montenegro, it was subsequently agreed that DCA was not a likely route at this point in time and further discussions of DCA have been tabled.

## **Proposed Changes and Refinements to Activity for Future Year**

The key activities within the first year have focused on two major issues: 1) the bankrupt state-owned enterprises and the completion of the bankruptcy proceedings; and 2) the concessions for supply of logs and the noncompetitive status of the private sector with respect to log supply. MCP has initiated several SOWs that addressed these matters, and the government has executed MOUs with MCP obligating it to cooperate with MCP and to adapt the recommended procedures and policies to remove these significant barriers to competitiveness.

The Bilateral Agreement with Slovenia has the potential to establish a positive business environment and increase fair and transparent commercial activities in the Wood Sector in Montenegro. Further the registration and launch of the Wood Industry Council will offer a strong platform for the private sector to continue to address the needs of the industry going forward.

The most significant refinement for work activities in year two will be to have all efforts funnel through the Wood Industry Council. The Council will establish a very aggressive agenda, and MCP will assist the Council with appropriate SOWs and STTA as available. The initial priorities of the Council have been adopted from the Strategy Report; however, the Council and MCP will remain flexible and responsive and ensure that the business environment for the wood sector continuously improves.

## **Problems or Obstacles Encountered**

Following a series of meetings with the Deputy Minister of Agriculture and other public sector representatives over the course of the year, the advisors have observed that the various authorities in the wood sector do not have an organized and unified approach to the changes necessary to improve the sector. There are significant dysfunctional activities and certain responsibilities that appear to be outside of the proper domain of the described agencies and departments and other tasks/responsibilities are not claimed at all.



A key example is the bankruptcy proceedings involving the ex-state-owned wood processing enterprises. By law the enterprises are under the control of the Commercial Court. However, it is the Ministry of Agriculture that is heading attempts to sell the enterprises. Indeed, the Ministry is referring to this as privatization, when in fact, it must be liquidation. The Privatization Agency is silent as is the Commercial Court. A second key example is the smuggling of logs out of the forests. By law, the forests are managed by the Ministry of Agriculture, through the Forestry Directorate. Annual concessions are granted to the bankrupt enterprises, and the state-owned logging companies select which trees will be cut and then cut the trees. The bankrupt enterprises have no need for the volume of trees granted in the concessions; however, the logs are steadily cut and sold to third parties. Within these two counterproductive scenarios, no one accepts responsibility and everyone claims it cannot be fixed.

Unless there is finally a demonstration of political will to address the two key issues of 1) restructuring forestry, logging, and concession activities; and 2) completion of the bankruptcy process, it will be difficult to develop the appropriate business environment necessary to advance the private sector in the forest products industry.

The private sector continues to be outside of the qualification criteria to gain forest concessions, and these forest concessions remain unreliable. There have been several cases of 10-year terms for the concession granted to the new private sector owners who took previously state-owned enterprises out of bankruptcy. However, even these concessions are not well managed and have varying annual volumes allowable for the company. As an example, the new owner of Javorak was granted a 10-year concession for a total of 540,000 cubic meters. However, during the first year of operation, citizens from nearby municipalities blocked the roads, and the state-owned forestry services did not provide proper access to the necessary number of trees to have an efficient production and to meet sales projections. MCP helped Javorak to source lumber from Bosnia to meet contract obligations. The Wood Industry Council will take this up, and the Bilateral Agreement with Slovenia will also address this matter.

Log smuggling continues unchecked and the former state-owned enterprises, which are under bankruptcy proceedings, exploit their concession quotas by transferring rights to third parties in the forestry companies. These forestry companies cut and sell the logs, even though the bankrupt processing companies are not consuming these logs. The Law on Forests prohibits the sale of logs outside of Montenegro. Most stakeholders acknowledge some level of smuggling, and all parties claim that they do not know who is doing this. If the generally accepted figure of 500,000 cubic meters of annual smuggling is applied, this indicates a smuggling business valued at EUR 15 million. This would suggest that there are vested interest parties who have much at stake with the status quo. The net result is that the prime logs are not available for the private sector to process in Montenegro.

The private sector must complete the process of forming the Wood Industry Council and establish this legal entity as the apex trade association for the wood sector. Our work in this initiative from the strategy workshops indicates that there are significant barriers to be overcome, including funding and several key advocacy issues. Every country that has a significant forest products industry also has a strong private sector organization representing the commercial interests of SMEs and major corporations alike. Because of the recent socialist regime and the fact that the wood processing enterprises were in the hands of the government, it is even more

imperative that the fledgling private sector unite under a recognized legal entity to gain policy reform and to achieve a competitive business environment.

### **Other Developments or Events Having the Potential to Significantly Affect Performance or Progress Toward Targets**

There is significant potential for the wood sector within Montenegro. Generally the retail consumer demographics do not support a vibrant market for wood furnishings; however, there is strong demand in the commercial market. The current demand for the refurbishment and upgrade of tourism assets such as hotels, pensions, and apartments is an important opportunity for the wood sector. However, production capacity is insufficient and quality standards are inadequate in the private sector to meet this demand. The 12 bankrupt enterprises have not even entered into discussions with the Ministry of Tourism to arrange for contracts that could revitalize these firms. This demand cycle will last for the next few years only, and the contracts to outfit the hotels and other buildings will likely go to larger wood processing firms from the region, such as Greece, Hungary, Italy, and Croatia. At this time only Javorak can respond to such requests to quote on the refurbishment. Javorak, through its sister company, MiRai, is in the business of outfitting hotel rooms and other commercial space. Companies from Serbia also do this work and have secured contracts in Bulgaria and Macedonia. A second company, Doding, can also participate; however, this company works only in wardrobes with shelves and sliding doors. A strong Wood Industry Council can bring together sufficient numbers of small operations that could collaborate and offer all necessary products to fulfill these upgrade contracts.

A large construction firm from Beograd has privatized a wood processing company in Serbia and placed orders valued at EUR 1.5 million at Ligna in Hanover, Germany, indicating that there is real opportunity to revitalize the wood industry. Given that the wood industry has not received significant capital goods investment for 15 years, the quality of operations is dismal. The challenge is to overcome this competitive disadvantage through investment. Since the Serbian construction firm has privatized a wood processing company and has invested in new equipment, this is a strong indicator that the market opportunities are there. MCP believes that the wood sector in Montenegro could be viable with a focused market strategy; however, the first step is to gain threshold entry into such markets by acquiring the necessary processing equipment and technology. The vendors at Ligna indicated that there have been three generations of most production lines since Montenegro last invested in wood processing technology.

As part of MCP's investigation into a Bilateral Agreement with Slovenia and the subsequent technology transfer and policy reforms, MCP has discussed the availability of certain enterprises and wood processing assets with private sector stakeholders in the wood industry in Slovenia. Several companies in Slovenia are expressing interest in investigating strategic partnerships in Montenegro, and MCP will advise the interested parties of our progress on its SOW to assist the Commercial Court with Jakic and Gornji Ibar. MCP hopes to present the capabilities of various wood processing enterprises from Montenegro formally to the Slovenia Wood Cluster <http://grozd.sloles.com/en/povezave.php> in the coming month.

### III. SECONDARY AND INSTITUTIONAL LEVEL AND SUSTAINABILITY

#### Secondary and Institutional Level—Overview

##### Goal 1: Deepen and Broaden Access to Business Services

1. Leverage STTA and volunteer advisors to train Montenegrin consultants on international practices and advanced consulting practices
2. Partner Montenegrin consultants with STTA advisors on client assignments (*To be subsumed under Subtask 1*)
3. Develop linkages with BSP associations in the region as well as international associations and accrediting bodies

##### Goal 2: Develop Mechanisms and Strengthen Institutions for Effective Public Private Dialogue

1. Engage think tanks and business associations on policy dialogue and legal and regulatory obstacles to doing business to support sector/cluster agendas
2. Engage SME Agency and Investment Promotion Agency, as appropriate, to develop ongoing dialogue and cooperation with private sector and potential investors
3. Engage Council on Economic Freedom, as appropriate and within resource constraints, to enhance the Council's ability to effectively identify and address ongoing and legal and regulatory issues.

##### Goal 3: Grant/Cost Share Program

1. Establish guidelines for grant program with USAID
2. Run competitive application process for grants
3. Conduct monitoring and evaluation of grant results

#### Progress Against Prior Year Work Plan

##### Goal 1: Deepen and Broaden Access to Business Services

1. *Leverage STTA and volunteer advisors to train Montenegrin consultants on international practices and advanced consulting practices*

MCP activities in this area are somewhat limited by the depth of commercially available consulting services in Montenegro and the specific sector activities; however, we have engaged local consultants in sector activities where appropriate. We have broadened our definition of consultants to include relevant professionals with government agencies (i.e. SMEDD), business associations (MBA) and MCP staff, as well as commercial consultants. In the case of the Balkan Market Survey in the agricultural sector, two professionals from SMEDD participated in the field research in the surrounding countries along with Mr. Henry Harmon. In addition, MCP

collaborated with CEED in hosting the workshop on international certifications with SGS, Ltd from Belgrade.

Other opportunities for working with Montenegrin consultants are being developed. In particular, MCP is finalizing an MOU to provide assistance on specialized marketing topics shortly with BS Agency. BS Agency is a marketing agency, which was awarded a contract by the National Tourist Organization to design and run the national website ([www.visit-montenegro.com](http://www.visit-montenegro.com)). It is also a leading competitor to win a tender issued by the NTO to prepare a marketing strategy. BS's website [www.turizam.cg.yu](http://www.turizam.cg.yu) contains information on hotels, private accommodation, and restaurants.

*2. Partner Montenegrin consultants with STTA advisors on client assignments*

See Subtask 1 above.

*3. Develop linkages with BSP associations in the region as well as international associations and accrediting bodies.*

After the first year of activities, MCP has determined that potential linkages among BSPs, including business associations broadly defined, will be best made at the sector level and on an one-on-one basis. MCP has worked with the Montenegrin Chamber of Commerce, MBA and other sector associations on Year 1 activities. In Year 2, we expect to further develop regional linkages among these associations and respective associations in the surrounding region. In addition, the workshop held with SGS serves as MCP's first step towards increasing ties among international accrediting bodies, Montenegrin firms and Montenegrin business associations. International certifications and HACCP, in particular, for the agriculture sector will be critical for firms to engage international markets more broadly and successfully.

**Goal 2: Develop Mechanisms and Strengthen Institutions for Effective Public Private Dialogue**

*1. Engage think tanks and business associations on policy dialogue and legal and regulatory obstacles to doing business to support cluster agendas*

At the national level, the main players with which MCP has worked on policy and legal issues are the MBA and MEU on specific policy obstacles cutting across all sectors. MCP is developing steps towards addressing the receivables issue discussed earlier in this report. This is an issue that significant implications for food sector more so than the other two sectors.

At the sectoral level, we have developed good working relationships with the Montenegro Hotel Association and the Medicinal Herb Association. The Montenegro Hotel Association represents smaller hotels and inns in efforts to reduce regulatory and administrative burdens, as well as provide training to its members. MCP has been actively working with the Medicinal Herb Association, and have had success facilitating discussions between the Association and the Government to eliminate onerous export requirements.

The level of organization in the wood industry is less developed than in the other two sectors. MCP has made good progress in Year 1 in identifying areas around which a common agenda

could be developed. MCP has engaged the MBA and CEED to discuss our planned assistance with the development of the Montenegro Forest Products Council; a trade association for the wood sector. Among the few existing groups of stakeholders in the wood sector, none is comprehensively representative of the industry. Within the MBA, there is a special interest group that focuses on the wood sector and the group participates in MBA and CEED programs. Our advisors believe this group could be appropriate as a building platform for building a Forest Products Council. MBA acknowledged that the development of a highly organized trade association for the wood sector was necessary to address the complex matters facing the private sector. In addition, the Montenegro Chamber of Commerce has also engaged in these efforts and has co-hosted one of the strategy workshops. The Chamber management stated that they were quite interested in participating in this process.

*2. Engage SME Agency and Investment Promotion Agency, as appropriate, to develop ongoing dialogue and cooperation with private sector and potential investors*

Over the last year, MCP has developed an excellent working relationship with SMEDD. We have engaged SMEDD on the 'Made in Montenegro' program helping to redefine the importance of setting objective product standards to qualify in the program. As part of this effort, we have gained acceptance of sanitary and international standards for qualifying criteria. These are critical steps in raising the perception of Montenegrin products in local and export markets.

In addition to the 'Made in Montenegro' discussions with SMEDD, we have also worked with their staff on project activities. Two SMEDD staff participated in the Balkan Market Survey with our expatriate advisor. This experience helped to impart knowledge on how to investigate export opportunities for Montenegrin products and build ties with potential buyers in Bosnia and Herzegovina, Serbia, Macedonia, Albania, and Kosovo.

At this point in time, the Investment Promotion Agency has not established itself as a potential counterpart for MCP.

*3. Engage Council on Economic Freedom, as appropriate and within resource constraints, to enhance the Council's ability to effectively identify and address ongoing legal and regulatory issues*

In January 2005, MCP was asked to participate in the review of overall performance/progress in key areas set out by the Economic Reform Agenda and identify new activities that will be incorporated in the renewed version of the Agenda. MCP advisors led the actively participated in the process making a number of recommendations to the respective sectors and Mr. Fred Harris led the efforts for the Agriculture sector, Mr. Marc Yanofsky led Tourism efforts, and Mr. Terry Mohoruk led the Wood Sector efforts. MCP will continue to actively engage in the ERA process and contribute to its objectives as it relates to MCP activities.

### **Goal 3: Grant Program**

*1. Establish Guidelines for grant programs with USAID*

MCP submitted a request to USAID at the beginning of May for approval of a grants/cost share program. It is envisioned that gnts and cost share arrangements will be used to provide support

to primarily firms for the following purposes: 1) trade shows; 2) marketing and promotional material; 3) specialized technical assistance and training (i.e. international certifications); and 4) credit enhancement to facilitate lending or investment from the private sector. Approval by RCO/Budapest is pending.

## *2. Run competitive application process for grants*

Because of the limited resources set aside for grant programs, we will likely use the grants program to support targets of opportunity rather than conduct a general grants program open broadly to the Montenegrin private sector. We will use grants to support those firms which have demonstrated an ability and commitment to maximizing the potential from our assistance. This includes making tangible changes in their strategy and implementation of that strategy, as well as the expenditure of enterprise resources (measured in staff time or actual financial resources).

## *3. Conduct monitoring and evaluation of grant results*

Pending approval of grants program and issuance of first grant.

### **Proposed Changes and Refinements to Activity for Future Year**

There is only one envisioned change to the workplan in Year 2. Subtask 2, “Partner Montenegrin consultants with MCP STTA advisors” will be subsumed under Subtask 1, “Leverage STTA and volunteer advisors to train Montenegrin consultants on international practices and advanced consulting practices.” These two subtasks are closely linked, and partnering Montenegrin consultants with STTA advisors will help to train Montenegrin consultants on international and advanced consulting practices. No other changes or refinements are envisioned.

### **Problems or Obstacles Encountered**

Efforts to develop common advocacy agendas for policy and regulatory issues are dependent on the ability of local organizations and associations to collaborate and to effectively engage the GoM on these issues. At times, it has been difficult to develop the trust and cooperation for organizations to represent businesses with one voice. The second issue related to advocacy efforts is the ability and willingness for the GoM to effectively address legal and regulatory issues. In the course of addressing these issues in the Wood Sector and the Herb Industry we have seen that the GoM does not always speak with one voice and solutions often involve multiple Ministries and Agencies who do not always share the same objectives. In the case of the export certifications for the Herbs, it was a case of persistence and leadership from the Ministry that led to its ultimate elimination.

### **Other Developments or Events Having the Potential to Significantly Affect Performance or Progress Toward Targets**

As mentioned above, cooperation and common agendas are not easily accomplished. We recognize that coalitions for common agendas can easily dissolve or crumble. Our efforts will focus on keeping these alliances whole and focused on common benefits. We also recognize that

changes in leadership at our GoM counterparts can also impact advocacy efforts if existing counterparts are replaced with less cooperative officials.

## IV. BUSINESS ENVIRONMENT

### **Business Environment—Overview**

#### **Goal 1: Identify and Address Key Policy, Legal and Regulatory Obstacles to Doing Business**

1. Develop sector/cluster working groups to identify and prioritize key obstacles to doing business with sectors and at the national level
2. Identify opportunities to increase the private sector ability to engage government counterparts on key issues
3. Engage Council on Economic Freedom and other GoM counterparts on key legal and regulatory issues

### **Progress Against Prior Year Work Plan**

#### **Goal 1: Identify and Address Key Policy, Legal, and Regulatory Obstacles to Doing Business**

In each of the three sectors where MCP is engaged, there are significant legal and regulatory issues preventing the sectors from reaching their full potential. The range of critical issues includes: log concessions and privatizations/restructurings of state-owned enterprises in the wood industry, to proper sanitary inspections and certifications in agribusiness to the receivables issue which impacts all industries. Many businesses are skeptical about being able to change critical legal and regulatory impediments. We are working through a number of different channels to address these issues. With the challenges inherent in economic policy reform and resources available to MCP, we have actively engaged GoM counterparts directly, and with the assistance of other USAID and donor advisors.

- 1. Develop cluster/sector working groups to identify and prioritize key obstacles to doing business within sector and at the national level*

The challenges of economic policy reform in Montenegro are clear. MCP has the advantage of being able to illustrate tangible impacts and benefits of policy, legal and regulatory reforms. However, there are few associations that are broadly representative of the individual sectors. The wood industry, in particular, is an example of this. In tourism and agribusiness, there are associations that represent segments of the sector, but not the sector as a whole. The MBA, MEU and Chamber of Commerce are national level associations with stronger efforts in some sectors. As a result, our efforts to develop policy/regulatory task forces at the sector level will fill a critical gap.

A few of the Year 1 efforts are noted below:



**Herb Industry.** MCP facilitated series of meetings among representatives from three GoM Ministries/Agencies, herb exporters, and the Herb Industry Association in order to assess and mitigate the impact of regulations that were impeding exports of medicinal herbs and mushrooms sector to assess current export barriers) resulted in a positive response from the GoM. The GoM agreed to remove a superfluous piece of required documentation and associated fees (Euro 350/transaction) and to review other cumbersome legislation/documentation. While there was a delay in the actual implementation of the agreement, one of the main exporters, EkoFlora, reported a sale of 15 metric tons of dried sage worth Euro 16,000.

**Wood Industry.** Of the three sectors with which MCP is working, the wood industry is most adversely impacted by policy and regulatory constraints. MCP staff have actively engaged the Ministry of Agriculture on two key issues 1) restructuring forestry, logging and concession activities; and 2) completion of the privatization process, and have made some progress in these areas.

**Receivables.** As mentioned above, many companies state that receivable are soaking up an overwhelming amount of their working capital. A number of these say only 5 to 15 percent of their retail clients pay on time, and that the time lag for collecting delinquent accounts is increasing. MCP is working with the MBA, MEU and Bearing Point to develop a solution to this issue. At present, there is no effective judicial remedy to the situation and complaints to the government (often so-called buyers of these products) are viewed as invitations to have waves of inspectors descend on company premises, resulting in potential for bribes to inspectors or worst, causing plant closures. One option which we are developing with MBA and MEU is to encourage a position of solidarity to discontinue supplying slow or nonpaying customers. However, if the GoM is one of the worst offenders, as initial investigations indicate, this option may be difficult to carry out. The issue severely impacts the Montenegrin economy, not to mention the project's efforts to assist in expanding market potential.

*2. Identify opportunities to increase the private sector ability to engage government counterparts on key policies*

This component of MCP is a more systemic, long term effort to assist business associations and other institutions, as representatives of the private sector, more effectively engage the GoM on key policy and regulatory issues. Our initial efforts have focused on issue-specific advocacy efforts for some of the reasons noted earlier – it is easier to build coalitions on specific pressing issues than to develop mechanisms for general collaborative efforts. This approach can also build momentum for broader cooperation with positive results from these initial efforts. Some of our partners in this regard are the Herb Industry Association, MBA, MEU, the Montenegro Hotel Association and the nascent Wood Industry Council.

MCP was invited to participate in the Coordination Body (CB) for the Summer Tourism Season. Some of the key issues addresses by the CB includes noise, cleanliness, the tourism gray market, tree cutting, fire protection, seasonal facilities, public utilities, parking, safety at sea. Some key areas that have significant impact on MCP efforts are the “Let It Be Clean” initiative and simplification of registration and taxes for private accommodations. There have been discussions of establishing a permanent secretariat with the idea of being vested with the responsibility for implementing CB decisions. This has the potential to serve as another venue for the private sector to engage the government on key tourism sector issues.

### *3. Engage Council for Economic Freedom and other GoM counterparts on key legal and regulatory issues*

As discussed earlier, MCP has actively engaged the Council on Economic Freedom and other GoM counterparts on key legal and regulatory issues under the ERA. MCP has worked and continues to work with MBA and MUE (both Council members) in several instances on key issues, but it is generally felt that the Council had been generally ineffective since it has no clear mechanism for its discussions or decisions to feed back to the government for action.

MCP has been worked closely with the Ministry of Agriculture on issues related to the Agriculture and Wood Sectors and the Ministry of Tourism on a number of legal and regulatory issues mentioned earlier in this report.

#### **Proposed Changes and Refinements to Activity for Future Year)**

No changes are anticipated

#### **Problems or Obstacles Encountered**

The major issue encountered regarding business environment matters is the effectiveness on the GoM in implementing decisions or reforms once made. In the instance of the Herb export requirements, we noted the delay by the Forrest Directorate in agreeing to allow exports without the previously required “endangered species” letter. It is clear that the GoM does not always speak with one voice.

#### **Other Developments or Events Having the Potential to Significantly Affect Performance or Progress Toward Targets**

Turnover in key GoM counterparts is always a potential issue. We have invested significant time in developing mutual understanding with our counterparts on key issues. If key counterparts at the Ministry of Tourism, the Ministry of Agriculture or SMEDD are changed then some of our efforts could be reversed. The most significant of which would be our efforts on the Sveti Stefan concession.

## V. PUBLIC OUTREACH

### Public Outreach—Overview

#### **Goal 1: Assist Key Government Counterparts to Develop Focused Internal and External Public Education Messages Supporting Increased Competitiveness**

1. Coordinate with Bearing Point PE/PA efforts
2. Develop key messages and campaigns for internal GoM consumption to support improved business environment
3. Develop key messages for private sector regarding competitiveness and MCP

#### **Goal 2: Improve Quality of Private Sector Communications with Consumers and Potential Foreign Investors and Partners**

1. Provide assistance for sector and firm-specific marketing and brand promotion efforts
2. Provide assistance and training for qualified firms in engaging with foreign investment community
3. Assist private sector and government develop cohesive message to attract foreign investment

### Progress Against Prior Year Work Plan

#### **Goal 1: Assist Key Government Counterparts To Develop Focused Internal and External Public Education Messages Supporting Increased Competitiveness**

1. *Coordinate with Bearing Point activity PE/PA efforts*

The Senior PO met frequently with the BP PO staff, and less often with the GOM Public Relations office. While cooperation was excellent with the BP staff, we found that the GOM office to be very much set in its ways concerning the effort it should be expected to undertake.

2. *Develop key messages and campaigns for internal GOM consumption to support improved business environment.*

The PO Advisor met with various counterparts to discuss providing desk-side capacity building communications assistance. Favorable responses came from the Ministry of Agriculture, Deputy Prime Minister for Economy and Development, SME Agency and Ministry for Foreign Economic Relations and European Integration. This effort was a main component of the Advisor's communications strategy submitted in December 2004, it was decided between MCP and USAID that this should not be a point of PO emphasis. Similarly, it was decided that holding regular briefings and seminars on competitiveness to journalists would not be effective allocation of project resources.

Significant efforts under this subtask have been limited and may be more suitable to be managed as part of the Bearing Point Economic Policy Activity public education efforts with support from MCP.

*3. Develop key messages for private sector regarding competitiveness and MCP*

The PO developed materials and messages for dissemination through various media, such as the project summary, news releases, talking points and coaching for MCP and counterpart media interviewees, handouts, sector fact sheets and opinion-editorial pieces. The usual tactic employed was that all project public informational materials should be replete with embedded pedagogical competitiveness material.

In addition, the MCP Senior PO Adviser wrote two op-ed pieces. The first, entitled “Competitiveness is Knocking at Montenegro’s Door”, focused on the need for Montenegrin businesses to change their strategies in order to enhance their competitiveness, was published in April in the daily *Vijesti*, while the other piece, “Montenegro: An Ecological State of Mind”, is to be published in early August in *Vijesti* and *Republika* dailies

**Goal 2: Improve quality of private sector communications with consumers and potential foreign investors and partners.**

*1. Provide assistance for sector and firm-specific marketing and brand promotion efforts*

With MCP support, several companies - Ital Product, Pirella, Sun and Lars - were covered by the media. The PO Advisor briefed interviewees on media relations, handling interviews, and presentation messaging to MCP partners. Coverage included Montena TV, *Vijesti* daily and RTCG. We met with many local businesses to identify their needs with respect to labeling, packaging, marketing and promotion, and possible Web site exposure.

The possibilities for export expansion were discussed with a representative of A.B. Company, a import-export firm, who visited Montenegro. Crnagoracoop is a Montenegrin partner of A.B. Company. We have connected other companies with A.B. Company. Those firms included their products in an export contingent that traveled to the U.S. In addition, A.B. Company invited Montenegrin counterparts to visit the Fancy Food Show in New York, offering to cover admission costs of event tickets.

We also advised Aroma Dragojevic in Danilovgrad, and the Balloon Company on attracting media attention and improving promotional material, along with Ital Product, the Inspe herb company from Bar, Cevo cheese, and Crnagoracoop.

*2. Provide assistance and training for qualified firms in engaging with foreign investment community.*

There were no activities undertaken this subtask in Year 1.

*3. Assist private sector and government develop cohesive message to attract foreign investment.*

PO advisors met with several governmental entities such as the SMEDD, the Investment Promotion Agency, Deputy Prime Minister for Economy, Privatization, Ministry of Agriculture, Ministry of International Economic Relations and European Integration (MIER & EI) discussing topics such as image enhancement of Montenegro, promotion of Montenegrin products, collaboration in establishing contacts and pairing Montenegrin businesses with international partners, export possibilities, and international media exposure and possibilities for cooperation between the MIER & EI and MCP for FDI public outreach. The MIER & EI invited MCP to attend the Round Table Export Forum organized in June 2005 to examine export possibilities and capacities of Montenegrin companies. In addition, MCP was asked to suggest some of its partner companies to be invited to this year's forum. Last year's event included some 50 Montenegrin companies.

### **Goal 3: Other**

PO advisors compiled fact sheets for the MCP projects and the three sectors—Tourism, Agribusiness, and Wood Processing. In addition, a number of press releases, invitation letters, and ads were produced. The Seminar on Tourism was advertised in daily *Vijesti*.

PO advisors met with all major media outlets and discussed cooperation and opportunities for media coverage of MCP's activities. PO advisors established cooperation with all mainstream media. For example, the editor of the specialized tourism program, Signali, is interested in continuous cooperation with the MCP as well as the editor of business section in a daily *Republika*, just to mention a few.

PO advisers provided tips to local and international advisors, including Boris Spalecic, Mark Yanofsky, and Jeffrey Spear, on how to handle being interviewed; how to convey the message; illustrate the message thru examples in a viewer-friendly language.

**Media Exposure of MCP.** The project has had extensive media exposure, reaching both mass and specialized audiences. A sampling of coverage follows:

- The project was first introduced to the public through exposure arranged by the PO Advisor on Radio Antena M, *Vijesti* daily, the MINA News Agency business desk and RTCG National TV's "Economic Panorama" program.
- NTV Montena. The MCP CoP was interview on a NTV Montena program which covered the GOM's Made in Montenegro program.
- Radio Television Montenegro (RTCG). MCP's Agricultural Advisor took part in a primetime business TV talk show on RTCG, reaching a national audience plus broadcast via satellite throughout the world. Participation in this show provided an opportunity for MCP to educate the public on the Balkan Market Survey results and export potential for Montenegrin agricultural products. MCP Public Outreach Advisors prepped the Agricultural Advisor on promoting the idea of competitiveness and talking about international standards and certification. The call-in section of the show attracted many questions from viewers, who expressed great interest, especially regarding the herb industry. Since the broadcast of the show, there has been an increased interest in the

project. Most significantly, the Association of Exporters contacted the project with an interest in future cooperation with MCP.

- Interview of CoP on “Made in Montenegro” Products and Certifications on the Montena TV program *Oci u Oci*. Other guests in the program included companies producing Montenegrin products.
- Interview with Marc Yanofsky, Senior Tourism Advisor, in a specialized tourism TV show, *Signal*, on Montenegrin TV RTCG. In addition, more segments of Mr. Yanofsky’s presentation were covered in the following edition of *Signal*.
- Coverage of seminars on Managing to Meet the Needs of International Tourists, conducted by MCP Senior Tourism Advisor in Podgorica, Bar and Becici, covered by all mainstream media: MINA News Agency, Radio Montenegro, TV Montenegro, MBC TV and daily *Vijesti*. The press reported the issues discussed in the seminar such as different aspects of the hotel guest experience and specific actions that tourism operators can take to improve the quality of their service and generate additional revenues.
- Interview on Marketing and Packaging for Agricultural Products with Jeffrey Spear, STTA for Marketing in the daily *Republika*.
- Coverage of Memorandum of Understanding between MCP and Private Faculty for Tourism in Bar by the dailies *Pobjeda* and *Dan*, MINA, TV Pink M, TV MBC, and Radio Montenegro reported on cooperation between the two parties that will provide better private tourism education in order to ensure the growth of tourism industry

### **Strategies for the Future (Proposed Changes and Refinements to Activity for Future Year)**

We will need reevaluate our Public Outreach efforts for Year2 with the unexpected departure of our Montenegrin advisor in July. Much of our efforts in Year 1 have focused on public outreach and marketing from the perspective of MCP assisted firms. In this regard, one option available will be to allocate part of these responsibilities to an existing MCP staff member who has some experience in this area.

### **Problems or Obstacles Encountered**

The local PO Advisor left after being on the job for little more than a month. The Senior PO Advisor has provided MCP with a basic strategic communications planning and public/media relations “How-To” handbook which may be used to help guide the project’s communications activities should another PO Advisor not be in the project’s future. The planning session portion of the material can take MCP staff through a process whereby they identify key audiences, develop messages for them and then identify the optimum message delivery system for each message with each audience. The remainder of the material is a primer on such activities as writing news releases, organizing press conferences and press tours.

### **Other Developments or Events Having the Potential to Significantly Affect Performance or Progress towards Targets**

The same issues discussed above could have broader implications for our performance under the Public Outreach component.

## **V. PERFORMANCE RISK FACTORS**

### **LACK OF ADOPTION**

Firms with which MCP works may not take anything practical away from the activities and may fail to adopt new methods of conducting business. Similarly, firms may not get as much as they can. For example, attendance at trade shows has often been seen by companies as an end-point rather than just one step in a long process of penetrating new markets. A related issue arises when firms do adopt limited changes but fail to do so institutionally and continue to rely on MCP support to realize results.

**MCP Actions.** Design activities that respond to companies' real needs, convince companies of results from activities in straightforward terms, cancel programs with inadequate demand and look elsewhere, and ensure that work is short term and conditioned on companies' own staff taking over.